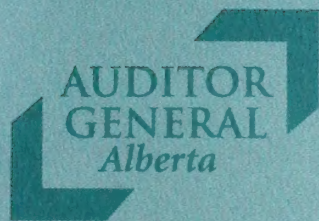


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Annual Report of the Auditor General of Alberta

1997 - 98



Mr. Paul Langevin, MLA
Chair
Standing Committee on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1998, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

This is my fourth annual report to the Legislative Assembly and the twentieth such report issued by the Auditor General of Alberta.

A handwritten signature in black ink that reads 'Peter Valentine'.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 23, 1998

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Report For The Year Ended March 31, 1998

Purpose of Auditor General annual reports

The purpose of the Annual Report of the Auditor General is to report the work of the Office. Our mission is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans. Our annual reports are designed to assist legislators in their work to hold the executive accountable for the management of public resources. Annual reports also serve to assist government and public agencies in improving their performance.

Scope of work

The scope and extent of audit work completed for 1997-98 and recommended improvements for the specific financial and management control systems examined by my Office are described in section 2 of this report. Section 3 of this report contains recommendations arising from an audit of the Motor Vehicles Registry carried out jointly by my Office and the Office of the Information and Privacy Commissioner.

For every financial statement audited, the Auditor General has issued an Auditor's Report. Section 4 contains information on those auditor's reports that contained reservations or reported a lack of compliance with legislation.

I am satisfied that those transactions and activities examined in financial statement audits performed by my Office complied, in all significant respects, with relevant legislative authorities, apart from the instances of non-compliance described in this report. However, I must caution readers that it would be inappropriate to draw a legislative compliance conclusion about matters not examined by my Office.

Recommendations

Recommendations are provided for the benefit of Public Accounts Committee members, ministers, other MLAs, the public, and management. When determining whether a matter is significant enough to bring to their attention, I consider the nature and materiality of the matter relative to the individual entity and to the government as a whole.

This report contains 78 recommendations. Of these, the 51 recommendations that I consider particularly important and therefore warrant a formal government response are numbered. Of the 51 numbered recommendations, 4 are repeat recommendations.

Improving The Financial Administration Of The Province

The purpose of this introductory section of the report is to provide a summary of the numbered recommendations, and to identify for the Assembly other matters of importance.

In essence, the Province's accountability model states that to be successful, all those who use public resources should:

1. Set measurable goals, and responsibilities
2. Plan what needs to be done to achieve goals
3. Do the work and monitor progress
4. Report on results
5. Evaluate results and provide feedback

These responsibilities, which can be viewed collectively as an accountability framework, are met by using systems. The process that extracts the potential benefits of the accountability framework is governance.

The table that follows shows that the work of my Office this year has again not identified problems with the first and last parts of the Province's accountability framework. Goal setting continues to be an integral part of the government's business planning; and generally we have not yet endeavored to assess the extent and quality of the evaluations of results. In future years, I expect the state of reporting to improve considerably, and thereby facilitate evaluation.

In the table I have categorized the 51 numbered recommendations according to whether the recommendations address deficiencies in governance, planning, execution, reporting, or the Year 2000 issue. The analysis of our recommendations shows that the government and its managers have much further to go in the areas of planning what needs to be done; doing the work; and on the conclusion of the work, reporting on results. In addition, I have made six recommendations relating to the risks that

ministries face with respect to the Year 2000 (Y2K) issue.

Planning what needs to be done to achieve goals

Twenty of my numbered recommendations are designed to assist managers by having them focus on developing the processes they use to deliver outputs. This effort includes developing comprehensive, timely business plans, establishing the performance measures that will be used in reporting their results, as well as the performance measures that they will use in evaluating the performance of entities to which they have delegated work.

Doing the work and monitoring progress

Fifteen of my numbered recommendations have to do with day-to-day business practice; and the conversion of plans into operating reality. They range from dealing with real risks to seizing opportunities to deliver services more efficiently; and to taking advantage of opportunities to provide needed guidance.

Reporting on results

Although only nine of the numbered recommendations relate directly to improving reporting on results, they are critical. It is my job as Auditor General not only to add credibility to performance reporting, including financial reporting, but also to improve that reporting. Alberta continues to be the leader among Canadian governments in the use of publicly reported plans and reports to improve performance accountability. The initiative demonstrates the government's commitment to serving the public's information needs and to assisting decision makers in their public policy and budget deliberations. As I believe that ministry financial statements are such a critical part of the accountability framework, their credibility is imperative. For this reason, my audit process includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As the government moves forward to implement the Government Accountability Act, I am recommending that its ministry financial statements communicate information that is useful in making decisions and assessing performance. In order to provide an accounting of the full nature and extent of resources for which a Minister is responsible, I believe they must include all assets and liabilities, recognize the effect of transactions and events in the period they occur, and record all costs of service delivery activities.

Analysis of numbered recommendations

Description of Categories:

Gov. Governance

2 Plan what needs to be done to achieve goals (including arranging contracted work)

3 Do the work and monitor progress (including managing contracted work)

4 Report on results

Y2K Year 2000 issue

Rec. #		Category				
		Gov.	2	3	4	Y2K
	Executive Council					
1.	Three-year business plans		x			
2.	Longer-term view		x			
3.	Challenging performance targets		x			
4.	Cross government initiatives		x			
5.	Forecast information on key factors		x			
6.	Guidance on content of business plans		x			
7.	Management of survey methods and reporting				x	
8.	Identification or risks arising from the Year 2000 issue					x
	Advanced Education and Career Development					
9.	Institutional business plans		x			
10.	Maintaining sector infrastructure			x		
11.	Long-term capital budgeting system for institutional infrastructure		x			
12.	Administrative Systems Renewal Project					x
13.	Non-Administrative Systems Renewal Project					x
14.	Amortization of buildings			x		
	Economic Development					
15.	Accountability of Alberta Racing Corporation	x				
16.	Accountability framework for grant expenditures from Lottery Fund	x				
	Education					
17.	Financial Reporting				x	
18.	Analysis of academic performance			x		
19.	Charter school accountability		x		x	
20.	School generated funds			x		
	Energy					
21.	Natural gas and by-products subsystems' controls			x		
	Environmental Protection					
22.	Timber Production and Revenue Systems - Status review and project plan			x		
23.	Integrated Resource Management performance measurement			x		

Rec. #		Category				
		Gov.	2	3	4	Y2K
	Family and Social Services					
24.	Services to Children and Families - Accountability	x				
25.	Services to Persons with Disabilities - Appropriateness of performance measures		x			
	Health					
26.	Timeliness of business plans		x			
27.	Population-based funding		x	x		
28.	Establishing an appropriate capital infrastructure		x	x		
29.	Performance measurement and reporting		x			
30.	Development of information systems - The we//net initiative	x				
31.	Reducing the Year 2000 risk					x
32.	Physician funding				x	
	Intergovernmental and Aboriginal Affairs					
33.	Business planning process		x			
	Justice					
34.	Measuring performance		x			
	Labour					
35.	Monitoring the performance of delegated entities		x			
36.	In-service inspection backlog – Pressure Equipment		x			
37.	Year 2000					x
	Public Works, Supply and Services					
38.	Performance measures		x			
	Transportation and Utilities					
39.	IMS cost-benefit analysis			x		
40.	Planning for Year 2000					x
	Treasury					
41.	Reservations in auditor's reports				x	
42.	Allocation of significant costs			x	x	
43.	Strategies to improve year-end reporting				x	
44.	Basis of accounting for the Province's consolidated financial statements				x	
45.	Quarterly reports				x	
46.	Investment management services		x			
	Joint Audit of Alberta Registries					
47.	Information in the Office of the Registrar of Motor Vehicles			x		
48.	Training private registry agents			x		
49.	Computer services performed by a service bureau			x		
50.	Motor vehicles and driver licensing information systems			x		
51.	Monitoring private registry agents			x		

The New Public Accounts

Public accounts have a new look

For the first time, ministry annual reports have been made public as part of Public Accounts, replacing the former Volumes 2, 3 and 4. This accomplishment is a significant milestone in the government's journey to become more open and accountable to Albertans and Members of the Legislative Assembly.

Public accounts focus on results measured against expectations

The government's traditional set of public accounts, which provided detailed information on cash received and spent, has been replaced with: information on results achieved, measured against expectations set out in plans; discussion and analysis of these results; and financial statements which meet many of the reporting standards set for private sector companies. Albertans now have the most informative set of public accounts in Canada.

Public Service managers have delivered

From February 1994 to September 1998, many obstacles and challenges were met and overcome. In my report this year, readers will note suggestions for even further improvement. In no way should these suggestions be seen to diminish the significance of the accomplishment of the public service managers who turned the legislated vision into real information.

Politicians, managers and auditors have more to do

Ministry annual reports are now a solid foundation to build even more informative reports. Meeting the challenges of better reporting requires the continued championship of the Provincial Treasurer and other political leaders. Public service managers need to use information on results, and commit to improving it. Auditors need to prepare to provide full assurance on results, and continue to identify and suggest improvements.

Albertans should use the accountability information

The final and most important challenge rests with the readers of the Public Accounts. Members of the Assembly, the media and all Albertans can now turn to reports which tell the story of what was accomplished with the money entrusted to the government. These groups need to look at the expectations set in plans and discuss the results reported in public accounts. Did we get value for money? How can this information be improved to help us assess the

performance of government? These are two key questions that can and should be asked. The new set of Public Accounts is the culmination of a great deal of effort; it is now up to readers to use these public reports.

Financial Reporting

The Province's financial statements are not yet complete

Of the recommendations that follow in this Annual Report, one that I believe is particularly critical to the government's accountability to Albertans is Recommendation No. 44: "It is again recommended that the Province's consolidated financial statements be prepared in accordance with generally accepted accounting principles for the summary financial statements of a government." Again, I seek to encourage the government to turn its acceptance of the recommendation in principle into an action plan for implementation.

GAAP is the yardstick to determine usefulness

The recommendation is expressed in the technical words of accountants. Generally accepted accounting principles (GAAP) are the set of standards that I use to assess whether financial reports are presented fairly. Essentially, GAAP is code for financial statements being useful to users. Unfortunately, however, GAAP can become a smoke screen behind which technical debates take place that can lose sight of that paramount goal of usefulness.

Albertans are not given the clearest picture

In simple words, I am asking the government to give Albertans the clearest picture of all the assets and liabilities, and all the revenues and expenses, for which the government is ultimately responsible. In my opinion, based on my understanding of legislated responsibility, the reality of the actual operations that I observe, and the accounting standards appropriate to the judgment, the Province's financial statements are incomplete.

The debate on which entities to include is stalled

Accountants have debated long and hard as to which Provincial organizations should comprise the Province's consolidated financial statements. The debate has focused on whether regional health authorities, universities and colleges, and school boards should be included. and the debate has centered on the issue of control. The debate is, however, stalled. I have not issued a reservation of opinion on the Province's consolidated financial statements because the

debate is not concluded in Alberta, and is ongoing in other jurisdictions in Canada. In his comments to the Public Accounts Committee in February 1998, the Provincial Treasurer expressed the view that including these organizations would cause the government to have to make changes in working relationships through a consequential impact on the consolidated budget. I take this opportunity to note that any such changes are not necessarily a precondition to having the Province's consolidated statements of operations and financial position reflect the reality of all existing relationships.

Alberta should again take the lead in Canada

By way of encouragement, I want to remind Members of the Legislative Assembly of their foresight in May 1995 in enacting the Government Accountability Act. This notable piece of legislation signaled Alberta as being a leader in measuring and reporting performance, in order to improve it. Although I refer to generally accepted accounting principles for the summary financial statements of a government, the fact is that standards become generally accepted, in part, through practice. Alberta has another opportunity to show leadership in Canada. Other governments are acknowledging that a "disclosed basis of accounting", that is disclosing a form of accounting that is steeped in budgetary tradition and history, is no longer the best accounting.

Complying with the accounting standards and reporting on a consolidated basis makes business sense

My Office has encouraged the government to have complete consolidated reporting for many years and our views were endorsed by the Alberta Financial Review Commission in 1993. The accounting standards that should be applied were established with consultation and input from controllers, auditors, other professionals, and the general public. Finally, to assist government, and the Public Accounts Committee, I have included my staff's business case for the expansion of the reporting entity by separately discussing, in section 2 of this report, the case for including post-secondary institutions, regional health authorities, school boards, and certain delegated administrative authorities in the ministries of Labour and Municipal Affairs.

The Alberta Public Service

Last year I said that delivery of service was at risk

Last year, I expressed substantial concern with respect to human resources that comprise the public service in Alberta. In particular, I stated that in my view “public service salaries are not competitive in a number of areas.” In short, I said there is “a significant and growing risk of failing to recruit and retain the managers and staff with the skills and enthusiasm to deliver cost-effective government services.”

The government has acted

In the budget that was brought down in February 1998, the government announced that it would pay an achievement bonus to both management and non-management staff. It also returned the remaining portion of the 5% rollback.

There is a new reward strategy

In March of 1998, the government released its new Management Reward Strategy, which took effect on April 1, 1998. This Strategy will competitively compensate public service managers and will reward performance. The Strategy sets out a common framework for all departments to follow. It includes providing deputy ministers with the authority and flexibility to implement compensation plans to fit their business needs.

The strategy has distinct components

The Strategy consists of three components; base pay, market modifier and achievement bonuses. The base pay is market driven. Range maximums are set at the median of Canadian public sector salaries. The market modifier provides the ability to address specific market “hot spots” in a way that does not affect base pay. The achievement bonus will reward managers for the achievement of government, department and individual goals.

The effect of the new strategy should be measured

Compensation levels have been acknowledged as a significant obstacle to recruitment and retention, and a barrier to the development and implementation of human resource strategies. The introduction of the Management Rewards Strategy and the Achievement Bonus is seen as a positive step towards removing the barrier, and rewarding and appropriately remunerating government managers. However, the full impact of these initiatives will not be known for some period of time. Their effect on new hiring and retention of senior personnel needs to be measured.

Year 2000

*Year 2000 is a
management
responsibility*

At the time of issuance of this report, the year 2000 is a mere 15 months away. This is a relatively brief time to resolve any remaining Year 2000 issues.

In section 2 of this report, I have made specific recommendations to some organizations respecting their actions in dealing with the Year 2000 issue. The suggestions arise from reviews of organizations' plans, and from work where we have directed our attention at the request of management. Readers of this annual report should not conclude that an entity is Year 2000 compliant because the Auditor General has not made any suggestions to management. It is management's responsibility to take reasonable steps to ensure that the entity will cope with, and survive the Year 2000 issue. It is not my responsibility to ensure that the entity is prepared for the Year 2000 date change. I do, however, believe that I am providing a useful client service by encouraging management to assess the extent of the problem and to develop appropriate plans to mitigate the risks.

Acknowledgments

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

Because of the rapidly changing public sector environment, the demand for our services is growing for three reasons:

- First, as the public sector changes the way it conducts business, there is a need for more statutory audits, particularly with the introduction of departmental and ministry financial statements.

Second, with the creation of new organizations to improve the cost effectiveness of public services, there is an increased need to provide assurance on accountability information, and to examine management control systems designed to ensure that Provincial goals are achieved.

- And third, there is an increased demand for the Auditor General to support the Legislative Assembly, departments and agencies as they search for ways to make better use of public resources. In this way we continue to make an important and significant contribution to the improved use of public resources in Alberta.

Members of my staff and I meet regularly with legislators, senior management members and board members of client organizations. In conducting our work, we continue to receive a very high level of cooperation from client personnel. This support is vital to the efficiency of my Office and without it our contribution would be far less successful. The government continues to accept and act upon a significant proportion of the recommendations of the Office which demonstrates their value.

I remain appreciative of and recognize the dedication of the outstanding group of professionals who are the staff of the Office of the Auditor General. Without their contribution, the scope and conclusions of the work described in this report could not have been accomplished.

I am pleased to recognize that the credit for the high quality of this report is properly due to each and every member of my staff, and I extend my sincere appreciation to all of them.

Peter Valentucci

FCA

Auditor General

Edmonton, Alberta
September 11, 1998

Guidance to reader

The Ministry of Executive Council consists of three programs:

- Office of the Premier/General Administration.
- Northern Alberta Development Council, and
- Public Affairs Bureau.

In 1998, expenditures for the Executive Council totaled \$13.2 million (1997 \$20.9 million - this amount included the expenditures for the Personnel Administration Office which is no longer a part of the Ministry of Executive Council). Estimated expenditures for 1999 are \$12.1 million.

In this section, I will focus on cross government issues

Executive Council, often referred to as the Cabinet, includes all ministers and is chaired by the Premier. It constitutes the government's executive leadership. In this section, I will discuss significant issues which may affect all ministries. Therefore, each Minister should consider recommendations provided in this section for implementation in his or her ministry.

Public business plans and annual reports are unique accomplishments

The government has established an accountability framework that includes the public reporting of three-year business plans and annual reports. Both are required for the government as a whole and for each ministry. This framework remains a unique accomplishment in Canada. Through the presentation of these and other key documents, Albertans and Members of the Legislative Assembly are able to see firstly what the government expects to accomplish, and subsequently, how the government's actual performance compared to planned expectations.

Opportunities exist for improving business plans

The effectiveness of the framework is dependent on the usefulness of the plans. For this reason, I examined three-year business plans and have identified some opportunities for improvement.

Annual reports need to contain relevant, accurate and complete information

The government and each ministry are required to report on achievements against the plan. These reports are used by Albertans and Members of the Legislative Assembly to hold the government accountable, and to provide information for subsequent planning. The effectiveness of this tool, for either purpose, is enhanced by providing relevant, accurate

and complete information. Over the last two years, there has been a considerable improvement in the reporting of results, but more work remains to be done. I have provided suggestions for improving annual reports, as well as the survey information used in performance reporting.

Adequate business resources are critical to achieving service delivery goals

At the end of the day, planning is just that. Planning does not produce results. In order to achieve the goals set out in plans, resources must be assigned, and work must be done. One critical resource is the people that make up the public service. In previous reports, I have commented on issues relating to the management of the public service. For example, in my view, there is a risk that the government will not be able to attract or retain the people necessary to accomplish its goals. My Office is currently conducting an examination of human resource management practices in the Alberta government.

Management of certain key risks by government organizations have been revisited in this report

I have again looked at the management of certain key risks faced by many of the organizations in the government. These include:

- the government's management of its readiness with respect to the Year 2000 problem,
- the action taken to ensure that appropriate cost-benefit analyses is carried out for information technology system acquisition and development projects, and
- the actions taken to improve the accountability framework for contract and grant management.

Government Business Planning

Background

Planning is the first step to more cost effective delivery of services

Over the last few years, the government has been implementing a new accountability framework. One of the intended key benefits of this new framework is a more cost effective delivery of services. Critical to realizing this benefit is the development and review of plans. A strength of the plans is gained from setting goals with measurable targets in conjunction with the establishment of the budget. The framework calls for the annual publication of a fiscal plan, a government three-year business plan, ministry three-year business plans and the Estimates.

Accomplishments set against planned goals are in annual reports

Accomplishments are then reported publicly in annual reports containing financial statements, performance measures and other information on results. These annual reports compare actual results with the expectations set in the plan. In this way, annual reports become the means of holding people accountable for meeting their business plan goals. Business plans and annual reports are the two main forms of public communication required by the Government Accountability Act.

Government plans look beyond one year by including goals and targets for the next three years

The Province of Alberta is a leader among Canadian governments in the use of publicly reported plans and reports to improve performance and accountability. The business plan creates a contract with Albertans, communicating to the public what the government intends to achieve. Due to the linkage with the budget, the public is also provided with the expected cost. In Alberta, the implementation of a three-year business planning model created the opportunity to look beyond the immediate year. The government must now look at least three years ahead in planning change and determining goals. Planning for more than one year is essential in large, complex organizations such as the Province.

The Provincial Treasurer is responsible for the government business planning

The Provincial Treasurer is charged with the responsibility of administering the Government Accountability Act. Therefore, he has overall responsibility for the business planning process. The Act specifically charges him with the duty to prepare the government business plan, the government fiscal plan and the government's annual report. Ministers are similarly responsible for their business plans and annual reports.

The Auditor General has examined government business plans to provide constructive comments on the process

My Office examined the government and ministry business plans. We have also reviewed the business planning process. It is evident that the government has improved its plans since the first set was published in February 1994. Also, we noted that ministries are at different stages of development in the planning process. I concluded that the government can improve its plans and its planning process, and thereby gain more value out of the plans.

The following recommendations are made to assist the government in improving its business plans. Briefly, these recommendations include:

- requiring greater emphasis be placed on the third year of the business plan,
- providing a longer-term context for business planning by setting and communicating longer-term strategies for ministries,
- requiring ministries to share amongst each other business plans early in the process,
- requiring the examination of performance targets to ensure that they are sufficiently challenging,
- providing elaboration on key cross-governmental initiatives in the government business plan,
- including information on expected changes in key factors affecting business plans, and
- providing information by component and improving the financial information.

Three-year business plans

Three-year business plans add one year to the plan for each new year

Alternatively, business planning could be performed every three years

The government recognized the benefits of three-year planning

Recommendation No. 1

It is recommended that in each year's planning, a greater emphasis be placed on creating the third year of the government and Ministry business plans.

In the business planning process, once the initial plan is developed, only one additional year is required to be added to the plan annually. This creates a rolling three-year business plan. The rolling three-year business plan is consistent with the requirements of the Government Accountability Act. Under this method, planning should focus on the third, or new year, of the plan. Since the first two years have been emphasized in previous planning sessions, the newest year warrants more attention.

An alternative to the rolling three-year business plan is to conduct a significant planning exercise every three years. Once the initial plan is developed, it is essentially fixed for the next three years. Due to the annual three-year business plan requirements of the Government Accountability Act, this method of planning is generally not followed in the government.

A benefit of either type of planning model is the need to focus at least three years into the future to set plan goals and targets. It must be recognized that as planners look further into the future, the uncertainty of achieving goals and targets

increases. However, by establishing the requirement for three-year business plans, the government recognized that benefits outweigh the increased risk. The primary benefit of three year planning is that there is a commitment to the medium-term impact of government programs by setting out the expected outcomes at least three years into the future. Also, the plans reflect the expected effect on the government's budget in subsequent years.

Planners should confirm assumptions for years one and two

Again in either case, annual planning should be carried out by ministries to develop their current year's operational plan or action plans. Planners will also need to review the continuing relevancy of assumptions used in developing the first and second year in the plan and make necessary changes.

More attention is required for the second and third years of the business plan

In a number of cases, we noted a growing trend for ministry planners to focus on the first year of the plan, essentially revising established plans. Also, there is little accountability associated with changes to the second year and in establishing the third year. Ministry planners should be able to use years two and three from the most recent business plan as a solid foundation for years one and two of the next plan. They can then have more focus on the development of the third year.

Reviewers should concentrate on the third year

Also, those asked to review business plans need to concentrate their review on the third year. With respect to years one and two, they should consider significant changes to the previously agreed plan.

Annual budget requirements are a constraint to three-year planning

Providing an ongoing focus on the third year of a three-year business plan is a difficult challenge for government. Factors working against a sustained focus throughout the preparation and review process include the need for an annual budget and its related review process, and an understandable reluctance to accept the risk of being accountable for a plan that is three years into the future.

Emphasis on the third year is needed to gain benefit of longer-term planning

To gain the benefits of three year planning, emphasis needs to be put on developing the third year of the plan. This focus should occur at all stages in the planning process, from development to review and agreement.

Longer-term view

Recommendation No. 2

It is recommended that ministries provide a longer-term context for business planning by setting and communicating longer-term strategies. It is further recommended that ministries share proposed business plans amongst one another early in the planning process.

Longer-terms strategic thinking would provide guidance to Ministries in preparing their business plans

Business plans provide direction to government organizations for the next three years. However, a number of significant programs require more than three years to implement. For instance, certain long range fiscal objectives have been set by the government, such as debt reduction. Also, certain types of spending, such as major capital additions, will affect program costs and outcomes for a significant number of years into the future. Setting out the longer-term thinking on major items will guide government planners when preparing ministry business plans.

Capital is an example of item that needs long-term planning

The government is currently examining the need for a long-term plan for capital expenditures in relation to the budget. Planning should consider capital costs, financing needs and the impact on operating costs. I have provided recommendations to both the Department of Health and the Department of Advanced Education and Career Development to improve the planning of capital expenditures and related costs.

Long term implications of key government initiatives are needed to set the context of business plans

There is evidence of longer-term thinking by ministries. Each ministry has a mission and vision which speaks to longer-term outcomes. Also, major initiatives are discussed in terms of more than three years. This may occur in political statements or other policy papers. For example, the 1997 Growth Summit was a source of strategic information. What seems to be missing is a consolidated view of longer-term implications of all key initiatives of the government and ministries. Such a view would be used to set the context for business plans. Also, bringing together these longer-term views will facilitate in communicating this perspective to reviewers of plans and to planners in other ministries.

Sharing business plans among ministries would improve Ministry plans

The understanding of longer-term views of other ministries will assist ministries in their planning. This is because in many cases the actions of one ministry affect another

ministry. With the increased integration of government services and ministry interdependency, the need to coordinate planning is increasing. An example of sharing plans occurred in 1996 when a joint session was held. At this session Assistant Deputy Ministers from all ministries met to discuss plans. We are informed that the session was viewed as useful by participants. In order for ministries to understand the effect on themselves of the planned actions of other ministries, steps should be taken to improve cross ministry communication on business plans.

Challenging performance targets

Performance targets must be both challenging and achievable

To work, the system needs to tolerate failure to achieve targets

Appropriate targets will motivate government staff to strive to achieve the targets

Recommendation No. 3

It is recommended that targets set in business plans in relation to goals be reviewed to ensure that they are challenging and attainable.

Business plans present goals with explicit targets. Performance targets are to be balanced between being challenging and being achievable. An effective review process will aid in analyzing targets for these two characteristics. The review process should ensure that targets are set low enough to provide a reasonable opportunity of success but contain sufficient challenge to create the need for improvement in program delivery. The review of business plan targets could be integrated into existing budget review processes. For example, the annual evaluation of a deputy minister's performance could include an assessment of the reasonableness of targets.

To work, those evaluating performance of people and organizations need to recognize that even with the best effort, targets may not always be met. Put another way, coupled with challenging targets is the need to recognize that there is always risk that some targets will not be met. A fair evaluation of performance by comparing actual results against planned targets includes recognizing the effect of uncontrollable factors on the results achieved.

Moreover, with the introduction of government achievement bonuses, there is an increased need for a performance target review process. In that personal achievement targets should align with targets contained in business plans, setting reasonable targets for individuals starts with setting targets in business plans. Regardless of the level, targets need to be

agreed upon by those people being evaluated against the targets and those who perform the evaluation and set the targets. There may be an incentive for staff to set target levels conservatively to ensure achievement of the bonus. Conversely, the reviews need to consider that if the targets are unattainable, the amount of positive encouragement derived from the targets may be dramatically reduced.

As noted earlier, one benefit of business planning is focusing people on the need to improve. Challenging targets coupled with a reward strategy create the incentives to innovate and improve.

Cross government initiatives

Recommendation No. 4

It is recommended that the government business plan elaborate on key cross government initiatives and that relevant ministry business plans more clearly demonstrate their ministry's respective contribution.

Elaboration on cross government initiatives is needed in the government business plan

In order to promote a common focus, the government has identified key cross government initiatives, for example the improvement in the delivery of children services. However, the government business plan does not contain an explanation of what is to be accomplished. Provision of such information in the government business plan for each key initiative would provide readers of the plan with a greater understanding of how the government intends to achieve these important initiatives.

How Ministries will work together should be described in the Ministry business plan

Achievement of many of the government's goals requires experts from a number of ministries to work collaboratively. How these cross government initiatives are coordinated could be explained more clearly in ministry business plans. We noted that some ministry business plans refer to these initiatives, while others are relatively silent on them. While there are other communications within government that speak to these cross government initiatives, a clearer explanation of the contribution to be made by a ministry to cross government initiatives, particularly key ones, would assist readers to understand how these initiatives will be managed and a ministry's contribution to it.

Forecast information on key factors**Recommendation No. 5**

It is recommended that ministry business plans include forecast information on factors which could significantly impact the successful implementation of their business plans.

High level information on expected future environmental factors and trends will assist in understanding the business plans

Information on key environmental factors which set out the context within which the plans were established would assist the reader when assessing the likelihood of ministries achieving the desired results sought by the business plans. Key factors would be the few, most significant factors that have a material impact on a ministries' success at achieving its business plan.

Business plans require the gathering of large amounts of external information

There are many variables to be considered in developing a business plan. Organizations usually conduct environmental scans which look at all the surrounding influences that may affect the ability of the organization to achieve its goals. This scan is designed to gain information on these variables and identify key factors and trends that the business plan should address. Such information provides a basis for determining goals and targets in a plan. For example, a key variable in an education plan would be the expected number of students entering the system three years in the future.

Business plans should disclose expected future levels of key variables and the impact of changes in these variables on plans

The information on factors to be included in the plan is, by definition, a forecast. And as such, a risk exists that the forecasts will not reflect what actually occurs. To the extent that variances may arise in the key factors, the viability of the business plans may be impacted. Budget '98 already contains some forecast information relevant to the government plan in its Economic Overview section. However, ministries do not typically provide this type of relevant information in their business plans. Information on key factors and the likely effect of variances in these factors on the business plans' goals will help readers analyze the plans.

**Guidance on content of
business plans****Recommendation No. 6**

It is recommended that all ministry business plans provide information on a common set of components and that the plan's financial information be presented in a form similar to the rest of the plan.

Ministries currently follow different formats for their business plans

Starting with the first set of three year business plans in 1994, ministries have been allowed a great degree of flexibility in the format and content of their business plans. As a result, ministry business plans follow a number of different formats. Some ministry business plans consolidate all entities that report to a minister, while other plans are segmented by specific entities. Business plans may focus on core businesses or alternatively on key change initiatives. Additionally, the meaning of strategies, goals and objectives differ amongst business plans. These and other differences complicate a readers' understanding and use of business plans.

Presenting financial information in the same format as other plan information will help readers

Each business plan includes financial information, which is typically in the form of a ministry income statement. As a result, financial information is normally provided using the program structure in the budget document. However, other plan information is typically presented in a different form; for example, by core business or goal. Also, financial information relevant to specific change initiatives is not clearly set out. Business plans would be more useful to decision makers if the financial information included was presented in a form similar to other aspects of the plan - such as core businesses, goals, strategies and change initiatives.

The government should determine standard business plan components and develop best practices

Since the first set of three-year business plans were published, the process has evolved. The government now has several years of experience with business planning, it is an opportune time to identify best practices and to define a common set of components. For example, a set of components could include mission, vision, core businesses, goals, strategies, performance measures and targets.

The business plans are published annually with the budget, and are used in the debate held by the Committee of Supply, a committee of the Legislative Assembly. The use of common definitions and content for key components would assist Members of Legislative Assembly and Albertans.

Conclusion

The Province of Alberta is a leader in the area of government business planning. Implementing a government wide business planning process has been a positive step in the Province's accountability framework, however there are ways the process can be improved. The opportunities for improvement noted in this section, if implemented, will assist the government in improving the cost effectiveness of government services.

Annual reports of ministries and government organizations**Background**

In my 1995-96 annual report, I set out criteria for the preparation of informative annual reporting by ministries. Ministry annual reports for the year ended March 31, 1997, and a number of annual reports of other accountable organizations as defined in Section 16 of the Government Accountability Act were reviewed for compliance with the criteria. I found that the reports provided good background information and were well presented. However, the quality of management discussion and analysis could be improved.

Management Discussion and Analysis

Information on actual results relative to targets assists the reader to assess performance

Management discussion and analysis (MD&A) should focus on providing information on actual results achieved relative to targets and budgets. The purpose of the MD&A is to assist readers in their assessment of the performance of an organization. It allows them to view the organization's operations through the eyes of management. MD&A can provide supplemental analysis and explanation which is not included in the financial statements such as explanations for significant variances from planned performance, and the sensitivity of the organization to risks and uncertainties.

Analysis of financial results

A balance between disclosure of areas of good performance and explanations for performance falling below targets should be achieved

It is recommended that more emphasis be placed on discussing the reasons for variances between planned targets and actual performance, and that analysis of financial results be included in management discussion and analysis in ministry annual reports.

Analysis of the degree to which targets were achieved and analysis of how strategies contributed to the achievement of goals assists readers in their evaluation of how well an organization's management has fulfilled its stewardship obligation. It also assists readers in understanding the likelihood of an organization meeting future targets. The

analysis should provide a balanced disclosure by acknowledging, but not overemphasizing, good performance yet providing adequate explanations for areas where performance did not meet targets. In a number of reports when actual performance exceeded or fell short of targeted performance, no explanation was given for the variance.

Annual reports should explain variances between actual performance and budget

Readers will consider both financial and non-financial performance when evaluating management's stewardship of the organization and the results of operations. A number of ministry annual reports did not provide an analysis of financial results as compared to the budget and the previous year. The MD&A in the annual report provides an opportunity for management to explain in narrative form its current financial situation and future prospects.

Government has taken action

I have been advised by the Deputy Provincial Treasurer that the above recommendation was incorporated in the standard established for ministry annual reports. These standards apply to March 31, 1998 and subsequent reports. Also, at the invitation of the Treasury Department my staff presented information on MD&A at a workshop provided to ministry staff charged with preparation of annual reports.

My staff will monitor compliance with the new standards.

Accountable organizations

It is recommended that organizations accountable to ministers be provided with clear written guidelines for the preparation of their annual reports.

Guidelines for achieving consistent and comparable annual reports are needed

The standards for the preparation of ministry annual reports indicate that entities of ministries that are required to prepare individual annual reports may wish to, but are not required to, follow those standards. The Government Accountability Act indicates that the "governing body of an accountable organization must prepare and give to the Minister responsible for the accountable organization a business plan and annual report for each fiscal year containing the information, in the form and at a time acceptable to the Minister". However the "form and acceptable time" were not defined in a written format for the organizations reviewed by my staff. As the quality of these annual reports varied considerably, it would be beneficial to these organizations to have written guidelines to follow. Such guidelines would clarify expectations and result in better

quality annual reports. It is acknowledged that certain ministries have issued annual report guidelines.

Client Satisfaction Surveys

Background

The use of client satisfaction surveys as measures of performance is increasing

Alberta government ministries frequently use surveys to measure client satisfaction with the quality of services delivered. For example, 8 of the 17 ministries have reported client satisfaction survey results in their 1997-98 annual reports and 12 plan to report survey results in their 1998-99 annual reports. In addition to serving as instruments of accountability, surveys are used internally in setting performance targets and developing action plans to improve performance.

The increased use of surveys has created a demand for expertise in survey methodology

Performance measurement has evolved considerably in the four years since ministry business plans were introduced. Over this period, my Office has reviewed survey processes in various government organizations. In most instances, we have found that organizations have identified the key program areas in which client satisfaction is important. However, we have also identified a general lack of skills and resources in survey design, execution and reporting.

Management of survey methods and reporting

Client satisfaction surveys must meet certain criteria if they are to produce meaningful results

Client satisfaction must be used carefully if it is to provide a meaningful measure of performance

Recommendation No. 7

It is recommended that ministries ensure their client satisfaction survey methods produce valid and reliable results. It is also recommended that standards be developed for reporting survey information.

Surveys must meet several key criteria if ministries are to realize the maximum benefit from the investment in gathering survey information. The key criteria used to assess the quality of survey information are validity, precision, confidence, and freedom from bias.

Validity is the extent to which a survey actually measures what it purports to measure. Specifically, there is a risk satisfaction surveys may be used to manipulate or "window-dress" reported performance. For such surveys to provide meaningful information, client satisfaction must be measured in terms of success in achieving ministry goals. There should also be a clear relationship between the actions

of the ministry and their effects on client satisfaction.

Survey results must be statistically reliable

Precision and confidence are inter-related statistical measures of reliability, applicable whenever responses are not received from the entire client population. Precision is a range of values within which the true satisfaction of the client population exists. Confidence is the probability the true satisfaction of the client population falls within the stated range of precision. Similar to opinion polls, the reliability of survey results can then be expressed in terms such as “clients are 80% satisfied, with a precision of plus or minus 5%, 19 times out of 20.” Reliability can also be affected by bias, which arises when response rates are low, samples are not selected randomly, or the survey analysis is flawed.

The following discussion addresses these criteria as they relate to survey design, execution and reporting.

Survey design

Key elements of client satisfaction are common to all programs

Certain key elements of client satisfaction are common to all programs. These include the perceived quality and value of services, and the competence, responsiveness and courtesy of the service provider’s staff. In designing surveys to test client satisfaction in these common areas, the following general rules should be followed:

Survey questions should be written carefully to produce consistent and reliable results

- Survey questions should be clear and straightforward.
- The layout of the survey can significantly affect response rates. The survey should be easy to read and complete.
- The survey should take less than 30 minutes to complete, so respondents are not rushed or discouraged from completing the survey.
- Surveys should be pre-tested to correct invalid questions, confusing format, and other potential problems.

There are opportunities to improve survey design

In reviewing ministry performance measures, we found a number of opportunities for improvement in survey design. For example, some questions contained more than one concept or were not clearly stated. Where satisfaction scales were used, the scale was not always consistent and increments on the scale were not always equal in intensity.

Survey Execution

The client population must be defined

The first step in survey execution is to define the client population, including appropriate sub-groups. Clients may consist of other ministries or government entities, the general public, or specific groups such as students, seniors, or health care recipients.

Survey samples should be representative of those who actually use the services

For organizations which provide services to the public, the survey sample should be representative of those who actually use the services. For example, a health care survey weighted according to the age distribution of the general public may be useful in assessing voter opinion, but would not be appropriate for measuring client satisfaction because certain age groups use disproportionately more of these services.

Entities which provide internal services may find it useful to survey potential customers

For organizations which provide services to other entities within government, the survey population may include current clients only, or may include potential clients and former clients. It may be important for these organizations to understand why some entities do not use their services, since this may indicate the need to increase awareness of the services offered, improve service quality, or reduce costs to be competitive.

The desired reliability of the survey should be determined in advance

The desired precision and confidence of results should be determined prior to conducting the survey, since this determines the number of responses required. At present, a number of ministry client satisfaction measures present precision and confidence information to allow readers to assess the reliability of reported results.

Survey response rates should be high enough to provide accurate results

Response rate is the percentage of clients who complete and return the survey. There is a risk that a low response rate will provide biased and misleading results, as it is common for the opinions of clients who do not respond to differ markedly from those who do. In general, a response rate of about 60% provides for a meaningful conclusion to be drawn.

Survey Reporting

Reporting should include information about several key aspects of the survey method and results

To assist users in their evaluation of results, to understand how performance information was collected and compiled and how results relate to the goals and desired outcomes of the ministry, reported information should include:

- a description of the client population,
- where sampling is used, the sample size, selection method, survey dates, response rate and any limitations in the survey methodology (e.g. low response rates, non-random sample selection, etc.),
- the precision and confidence level of results,
- a description of the satisfaction scale used in the survey,
- comparison of actual results to past performance and to internal targets and appropriate external benchmarks.

Conclusion

Improvements in survey methods and reporting will enhance client satisfaction performance measures

In my view, ministries have generally done a satisfactory job in developing client satisfaction performance measures. It is hoped the guidance herein will help further improve the quality of the information collected and the manner in which it is reported. As additional assistance, I will be preparing a client service document which will contain more detailed information on the use of surveys in reporting performance.

Year 2000

In my 1995-96 annual report (page 29), I recommended that the Office of the Chief Information Officer (OCIO) evaluate ministerial plans and monitor progress towards ensuring that information technology is Year 2000 compliant. In my 1996-97 annual report (page 24), I recommended that OCIO identify those ministries that are at greatest risk because their computer systems are not Year 2000 compliant and work with them to mitigate the risk of their business operations being adversely affected.

Systems performing date calculations may not operate as intended

Information systems may not operate as intended following the turning of the new millennium. Many systems, in the interest of saving storage space, only used two digits to

identify the year. Unless appropriate changes in software or hardware are made, when the systems read the year 00, they will assume that the year 1900 has been reached, rather than the year 2000. The consequential failure of these systems is referred to as the Year 2000 problem.

*My staff reviewed
government readiness*

During the examination of the government's readiness with respect to the Year 2000 problem, my staff considered:

- the plans and actions of government departments to address their systems,
- the understanding of ministry chief information officers of the plans and actions of the ministry's Provincial agencies, and
- the ministries' awareness of the risks facing the government with respect to failure of Alberta businesses and other non-provincial organizations to be ready for the year 2000.

*It is time now to develop
contingencies plans*

At the time of issuance of this report, the Year 2000 is 15 months away. There is a relatively brief time left to solve the Year 2000 problem. In my view, to the extent that systems have not been or are not about to be fixed, the government must consider the possible consequence of such failures and establish plans to mitigate any critical negative effect.

Identification of risks arising from the Year 2000 issue

Recommendation No. 8

It is recommended that the Office of the Chief Information Officer work with ministry chief information officers and other relevant government organizations, such as Disaster Services, to identify remaining Year 2000 risks to the Province and to develop appropriate plans to mitigate these risks.

*In government
departments, awareness is
high*

I am pleased to report that, in general, departments have made significant progress in identifying the scope of their problems and to plan for, and begin to take, corrective action. In short, since the original assessment in 1995-96, government departments have made significant progress in addressing the Year 2000 problems. The departments' awareness of the risks associated with the Year 2000 problem have increased, and monthly, the OCIO issues a

status report showing how well each department is progressing in addressing any problems that may arise.

Note 9 to the Province's consolidated financial statements for the year ended March 31, 1998 discloses the inherent uncertainty due to the Year 2000 issue.

While there remains a risk that some department systems will not be ready, an appropriate management process exists to identify and address concerns. In this report, I have provided specific advice to the Department of Labour on their need to improve their Year 2000 readiness (page 174).

Many Provincial agencies are at risk of not being fully prepared for the year 2000

My staff noted that government chief information officers lacked information about the progress Provincial agencies have made to address the Year 2000 problem. My staff examined the plans of a number of Provincial agencies and identified that some are at risk of not being fully prepared for the year 2000. For example, I have included recommendations in this report on the need for action by the University of Alberta (pages 49 and 51), Alberta Racing Corporation (page 75), and regional health authorities (page 144).

The ministry chief information officers also lacked complete information about the preparedness of Alberta businesses who provide services to the government.

The government has a duty with respect to the health and safety of Albertans

My staff also assessed ministries' awareness of the risks facing the government with respect to failure of Alberta businesses and other non-provincial organizations to be ready for the year 2000. Such risk may arise from the government's duty with respect to the health and safety of Albertans. To assist the government in managing this risk, in this report, I have addressed a recommendation to the Department of Transportation and Utilities (page 198) to improve disaster planning.

Each CIO needs information about the readiness of all organizations affecting its ministry's Year 2000 risk

The OCIO has overall responsibility for managing the government's readiness with respect to the Year 2000 problem. Also, each ministry CIO has responsibility to manage the ministry's readiness. Due to the short period of time remaining, it is important that appropriate contingency plans be established.

Cost benefit analysis for information technology systems

*1996-97 recommendation
was accepted*

In my 1996-97 annual report (page 19), I recommended that the Office of the Chief Information Officer (OCIO) provide guidance to assist ministries in conducting cost benefit analyses for information technology system acquisition and development projects. I also recommended that deputy ministers act to ensure that their ministries follow this guidance.

*Information Resource
Strategic plan has been
released*

The government accepted the recommendation and as a first step OCIO has released the government's "Information Resource Strategic Plan". This plan, developed in conjunction with all ministries, is intended to serve as a template for all ministries to use when developing or assessing implementation of new information technology initiatives.

*Guidance on cost benefit
analysis is expected*

I have been advised by the OCIO that they will shortly issue a cost benefit analysis framework which will provide more specific guidance. My Office will monitor the implementation of this framework.

Contract and Grant Management

*In 1996-97, I
recommended
improvements in the
management of contracts
and grants*

In the 1996-97 annual report (page 26), it was recommended that ministries ensure their contract negotiation and management practices result in cost-effective public services, and that responsibility be assigned for the establishment of a process to determine and implement best practices in contracting. In that report (page 34), it was also recommended that when grant funds and/or assets are provided to an organization or individual in return for an expected level of performance, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.

*Frameworks have been
developed and
implementation has begun*

I am pleased to report that action has been taken on these recommendations. A committee of deputy ministers has developed a framework for contract management and a framework for grant management which all ministries are required to incorporate into their business policies and practices. My Office was invited to comment on these frameworks, which we did. A second committee, comprising

Initial priorities are on training and identifying best practices

a number of ministry senior financial officers, has been formed to assist in the implementation of the frameworks. Other groups working in this area include the Industry Government Standing Committee on Construction Contracts, which has issued guidance on contract dispute resolution and contract tendering.

The chair of the implementation committee indicates that the first priority is the identification of current best practices and the assessment of training needs. To this end, an inventory will be taken of current contract and grant management practices across government. I believe this work should proceed without delay, since a number of ministries could benefit from the expertise other ministries are developing in this area.

There is a shortage of individuals with knowledge of full life cycle of a contract or grant management

Since contract and grant management is primarily the responsibility of individual ministries, I also believe that training in these areas should continue irrespective of the work of the committee. There are centers of expertise within government in the areas of program delivery, finance and law. The committee has identified a shortage of individuals with knowledge of the full life cycle of contract and grant management. Training on the broader aspects of contract and grant management is an appropriate starting point.

Accountability

I was able to apply certain specified auditing procedures to the performance measures contained in all 18 ministries' annual reports for 1997-98. This was only possible with the co-operation of the Treasury Department and each ministry.

I reported exceptions to the specified auditing procedures in one of the ministry reports. These exceptions were:

- The description provided in the annual report of the methodology used for customer satisfaction performance measures was incomplete. As a result, readers may not be able to properly interpret these performance measures.

- Documentation supporting the 1996-97 comparative information provided in the measures was not available for review by my Office. Therefore, I was unable to complete certain audit procedures with respect to this information.

This is the first year that performance measures were required to be reported by ministries under the Government Accountability Act. My Office will continue to work with ministries to improve the quality of performance information presented in annual reports.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Executive Council for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and departmental financial statements.

Scope of work

In addition to the annual financial audit, the following work was completed:

- Application of specified audit procedures to key performance measures reported in the Ministry's 1997-98 annual report.
- A review of the Ministry's progress in addressing the Year 2000 problem.

Guidance to reader

In the Province's vision for the future of adult learning, Albertans are recognized globally for the excellence of their knowledge, skills, attitudes and experiences that enable them to take responsibility for shaping their futures, to participate in a changing economy and workforce, to create new knowledge and to enrich the quality of life in their communities.

The Ministry of Advanced Education and Career Development's mission is to "lead and work with other partners to set new directions for adult learning, and to provide Albertans with an accessible, responsive and affordable system of quality adult learning that is accountable for results."

The Ministry provided approximately \$870 million to post-secondary institutions and \$215 million to assist adult learners

During 1997-98, the Ministry spent approximately \$1.2 billion. Nearly \$215 million of the Departmental budget was used to provide financial assistance to adult learners. Approximately \$920 million was used to support adult learning of which approximately \$858 million was provided to public post-secondary institutions (institutions) and a further \$9 million to private post-secondary institutions.

Business plans are an essential part of public institution accountability

As an important part of the accountability process, public institutions are required to disclose the activities which will be supported by these funds in their three-year business plans. In last year's annual report, I recommended that the Department, working with post-secondary institutions, improve the effectiveness of institutional business plans. My Office has, over the past year, reviewed a sample of the 1997-98 three-year business plans submitted to the Department. The results of our review are discussed on page 36.

Systems must be in place to evaluate the risks of not maintaining and replacing capital assets

In my 1996-97 annual report, I also recommended that the Department obtain information on institutions' long range capital funding requirements, as I had observed that many institutions had failed to consider capital needs in their annual and long-range plans. Given the amount of capital infrastructure and equipment used by the sector, it is essential, in my view, that systems be in place to evaluate the risks of not maintaining and replacing capital assets when required. For the sector as a whole to have adequate capital

planning, each institution must first determine its short-term and long-term capital needs. Secondly, financing strategies should be defined. However, I have found that the sector has not budgeted effectively for long-range capital needs. Part of the problem is a lack of information regarding the need for and type of sector infrastructure required in the long-term. Another concern is that several of the institutions have not adequately forecast the useful life of existing capital assets. My recommendations which follow, regarding capital budgeting, are designed to alleviate these problems and to help ensure the sector will have adequate information to support the requirements of the Province's capital investment planning.

Business Plans

Background

The Department must rely on the institution business plans to understand the operating, investing and financing strategies of the institutions

The Department works with the post-secondary institutions to ensure that there is a coordinated system of advanced education in the Province. As a major stakeholder, the Department uses the institution business plans to understand the operating, investing and financing strategies of the institutions. Business plans are an important tool in forecasting the changes that will occur in the system. Institutions use these plans as a basis for directing and describing strategic initiatives. At the end of the cycle, business plans should become the basis against which institutions report their performance. The Department reviews institutional business plans in order to ensure Departmental goals have been addressed and to assess the financial health of institutions. The Department uses the business plans to compile a summary of sector challenges and opportunities which will be used to develop future sector initiatives. To meet the information needs of both the Department and the institutions, it is critical that institution plans include clearly defined goals and objectives, strategies for achieving the goals that are linked to the institution's financial plan, critical assumptions on which the plan is based, the projected revenues and costs of providing the services, and key performance measures by which the successful achievement of goals can be measured.

In 1996-97, I recommended that the Department of Advanced Education and Career Development, working with post-secondary institutions (institutions), improve the effectiveness of institutional business plans. I also recommended that the Department obtain information regarding the institutions' long-range funding requirements for capital assets to facilitate the Department's assessment of the financial position of institutions and the advanced education sector.

The Department issued revised Business Plan and Annual Report Guidelines

I am pleased to report that, after consultation with several institutions, the Department issued revised Business Plan and Annual Report Guidelines to the institutions which requested information about their "goals, strategies, action plans, expected outcomes and key performance indicators" and which also specifically requested an "overall plan for equipment renewal and capital facility renewal and any link to program strategies." This was a positive step towards improving the effectiveness of institution business plans. The Department developed a template for use in their review of the 1997-98 business plans. The template addresses essential items such as whether the institution has aligned its goals with those of the Ministry, the key issues and challenges that have been identified and whether the institution is following through with its goals and strategies of previous years.

Institutional business plans

Recommendation No. 9

It is recommended that the Department of Advanced Education and Career Development, working with post-secondary institutions, develop strategies to ensure that institution business plans will contain the planning information necessary to meet the needs of the institutions and the Department.

Institutional plans do not contain complete planning information required by the Department

My staff reviewed five of the 1997-98 institution business plans and noted several opportunities for further improvement. Currently, the Department must collect sector planning information from several sources such as the Financial Information Reporting System, specific institution reports, independent consultant reports and through discussions with institution staff, because the institution business plans do not include complete planning information. Institutional plans do not discuss overall institutional needs

beyond those activities for which funding is anticipated. We acknowledge that the Department intends to review and improve the systems used to transfer information between itself and the institutions.

The narrative discussions contained within the institutional plans are not consistently reflected in the associated financial plans

The narrative discussions contained within the institutional plans were not always reflected in the associated financial plans. While the institutions have improved their discussions of assumptions used in the plans, especially projected enrollment increases, the effects of these increases have not always been included in the projected tuition revenues or direct instruction expenses as reported in the associated budget. In one plan, enrollment is projected to increase by 2.5% annually over the next three years, however, the budget for tuition revenues over this period was “established using 1997-98 enrollment levels.” Similarly, the costs of implementing the institutional strategies to address the ministerial goals of accessibility, responsiveness and affordability are not always reflected in the associated budgets. Moreover, only two of the five institution plans that we reviewed successfully quantified anticipated results using Key Performance Indicators (KPIs) and then set targets for the KPIs to enable performance evaluation.

Institutional capital needs, associated timelines and sources of funding are not always included in the plans

Each of the plans noted capital investment as a key issue and challenge, however, only one contained a summary of planned capital projects accompanied by timelines and sources of funding. There were several instances where projects, described in the business plan as critical to the institution’s success, were not identifiable within the associated financial plans. In one instance, for unspecified reasons, the budget excluded an “immediate expansion” described elsewhere in the plan as critical to providing a learning experience relevant to today’s social and industrial development. Effective capital budgeting requires the preparation of a projected statement of changes in financial position indicating budgeted investing and financing activities.

The institution business plans provide an ideal mechanism for the transfer of strategic planning information

I believe the institution business plans provide an ideal mechanism for the transfer of strategic planning information. The Department and the institutions need to work together to ensure that the type and level of detail of information in the plans meet both of their needs. Enhancements can continue to be made to the institution business plans via institution

working groups, the development of a prototype business plan or further clarification within the Business Plan and Annual Report Guidelines.

Deferred Maintenance

Background

A significant amount of deferred maintenance exists within the advanced education sector. A Departmental study indicates that approximately \$362 million is required over the next five years to address capital asset preservation, health and safety issues. Ongoing operational maintenance items, such as painting, were excluded from this total.

Maintaining sector infrastructure

Recommendation No. 10

It is recommended that the Department of Advanced Education and Career Development and the post-secondary institutions improve the system to manage the infrastructure by evaluating the risks relating to the unfunded deferred maintenance.

The Department will allocate a total of \$105 million of Infrastructure Renewal funds

The capital asset information currently available to the Department comes mainly from this study of deferred maintenance. In response to the report, each institution developed an Infrastructure Renewal plan describing how the Infrastructure Renewal funding would be used to alleviate the backlog of deferred maintenance, and also included strategies to avoid amassing such backlogs in the future. In 1997-98, the Department allocated the first of three annual payments of Infrastructure Renewal funds. A total of \$105 million will be allocated by the end of the 1999-2000 fiscal year.

Institutional Infrastructure Renewal Plans do not address all of the deferred maintenance

My staff reviewed four of the institutional Infrastructure Renewal Plans submitted to the Department. Generally these plans only outline capital projects that will receive funding. As a result, in total, these four institutional plans do not address approximately \$180 million of the backlog associated with their institutions according to the Department's study.

Considerable uncertainty exists as to whether the annual matching institutional contribution is achievable

Annually, large urban institutions are required to match 40% of the Department's Infrastructure Renewal grant, while all others are to match 20%. Assuming the institutions are able to match the \$105 million Infrastructure Renewal grant, funding available in the sector to address the deferred maintenance will total approximately \$165 million. Consequently, after three years, 54% of the backlog may remain unfunded.

The deterioration continues and the costs increase

Furthermore, the Infrastructure grants are only intended to address the backlog of maintenance. As each year passes, the deterioration continues and the costs increase. The Department estimates that 1.8%-2.5% of the replacement value of capital assets should be spent annually for regular maintenance of the facilities. Using this formula, the advanced education sector may need to spend up to \$101 million a year on maintaining facilities having a replacement value of \$4.04 billion. This is in addition to the \$362 million required to address the backlog. In each of the past three years, the institutions together spent on average \$67 million or 1.7% of replacement value on repairs and maintenance. This rate of spending has apparently been insufficient given the accumulation of deferred maintenance.

Between \$203 million and \$231 million of deferred and continuing maintenance remains unfunded

The Department's Infrastructure Renewal envelope of \$105 million to be disbursed over the next three years is a significant contribution towards addressing the backlog. However, after taking into consideration both the Department's and the institutions' Infrastructure Renewal contributions, approximately \$197 million of deferred maintenance remains unfunded. Moreover, according to Departmental estimates, current levels of spending on maintenance and repairs may have to increase between \$6 million to \$34 million per year to avoid accumulating further backlogs.

The Department needs to evaluate the risks associated with not addressing all of the backlog

As a result of backlogged maintenance, the sector faces the business risk of higher costs in the near future as assets require more extensive maintenance or even premature replacement. Furthermore, institution revenues may decline if a shortage of capital funding leads to service quality impairments, and students look to other advanced education competitors. Without a complete listing of backlogged projects which separately identifies critical projects, an assessment of the potential impacts of not addressing all of

the backlog cannot be made by the Department.

Long Term Capital Budgeting

Long-term Capital Budgeting System for Institutional Infrastructure

*Long-term capital asset
replacement strategies
remain ambiguous*

*It is critical that the sector
establish a long-range
capital budgeting system*

*Institutions must
determine the projected
timing, cost and method of
financing of replacement,
major renovation or
retirement of institutional
infrastructure*

Recommendation No. 11

It is recommended that the Department of Advanced Education and Career Development, working with the post-secondary institutions, develop a long-range capital planning system for post-secondary institutional infrastructure.

Over the past several years, there has been restraint placed on expansion or construction of new buildings government-wide. Currently, facilities in the advanced education sector are 40% amortized. Fifty-six percent, or approximately 260 buildings, are over 25 years old; 76% will be over 25 years old in ten years. While the Department is taking steps to address the backlog of deferred maintenance that exists in the sector, long-term capital asset replacement strategies remain ambiguous. In addition, post-secondary enrollment is projected to increase by 20% over the next ten years. The Department recognizes that the most serious capacity problem is in the urban centers where the growth in enrollment is taking place.

While responsibility for capital asset management rests with the institutions, their current focus is on short-range planning rather than on the long-range planning which is essential for the successful replacement or major renovation of assets such as buildings. Given the predicted enrollment increase, coupled with so many sector buildings potentially requiring replacement or major renovation at the same time and within the next 15 or 20 years, it is critical that the sector establish a long-range capital planning system.

Under such a system, institutions would submit long-range capital plans as part of their three-year business plan to the Department. These plans would indicate the projected timing and cost of replacement, major renovation or retirement of institutional infrastructure. Also included would be the institutions' strategies for financing these costs. Aside from generating funds from operations, institutions could decide to generate funds from capital fund-raising

campaigns, financial institution borrowings or departmental capital grants. Alternatively, institutions could decide to lease or partner with other institutions to obtain the required space. This information could assist the Department in forecasting the timing and demand for future departmental capital grant resources. Working with the institutions, the Department could determine sector priorities and assess the adequacy of institutional capital asset financing and investing strategies and assumptions.

From such analysis, a sector plan could be established

From such analysis, a sector plan could be established. The institutions could then begin implementing their financing strategies. For example, to the extent that a long-range strategy includes accumulating a portion of funds from operations, institutions could reflect this strategy in their annual budgets thereby creating a budget indicative of their long-range operational requirements.

The Department could consider creating funding incentives to encourage the institutions to manage their capital assets appropriately

As a final step in creating a sector-wide long-range capital planning system, the Department could consider creating funding incentives to encourage the institutions to manage their capital assets appropriately. Otherwise, well-managed institutions may be penalized if funding is directed mainly towards critical projects for institutions which were not managed properly in the past.

Ministry Financial Statements year ended March 31, 1998

I issued an adverse audit opinion on the financial statements of the Ministry of Advanced Education and Career Development for the year ended March 31, 1998. In my opinion, generally accepted accounting principles applicable to the public sector require post-secondary institutions to be consolidated in the Ministry financial statements. Had these institutions been consolidated, the information provided in the Ministry's financial statements would have been materially different.

There were other reasons as well for the reservation of opinion, and the auditor's report should be read for full details. I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements on page 206 of this report.

Reporting Entity

Consolidation of the public post-secondary institutions would improve the quality of the Ministry financial statements

In my 1996-97 annual report (page 198), I recommended that ministry financial statements be prepared in accordance with generally accepted accounting principles. This recommendation was addressed to the Provincial Treasurer as Alberta Treasury establishes the corporate government accounting policies and reporting practices to be followed by ministries. One departure from generally accepted accounting principles that significantly affects the quality of the Ministry of Advanced Education and Career Development's financial reporting is the exclusion of the financial position and results of operations of the Province's public post-secondary education institutions.

In the commentary that follows, I will set out the benefits of consolidated reporting, the accounting requirements and ways to overcome perceived impediments to the reporting that I am advocating.

The Ministry should prepare consolidated financial statements

The primary objective of Ministry financial statements is to provide an accounting of the full nature and extent of the financial affairs and public resources for which the Ministry is responsible. While the Department of Advanced Education and Career Development and the public post-secondary institutions are separate legal entities, they constitute the publicly funded system for adult learning. Accordingly, consolidated financial statements provide the most appropriate basis for the Minister to fulfill his accountability responsibilities for informing stakeholders about the operations of the system. This presentation is much more informative than individual financial statements of the Department and the institutions as it provides information to assess the system as a whole.

Overall cost of providing advanced education would be provided in the consolidated financial statements

For example, consolidated financial statements would provide comprehensive financial information about the programs provided and the full cost of advanced education. From this, performance information could be generated measuring whether advanced education is offered on a cost-effective basis. The Ministry recognizes that this information is of use and accordingly provided information on the institutional cost per full-load equivalent in its 1996-97 Annual Report. However, this does not include costs of the Ministry, and therefore does not present the actual cost.

Consolidated financial statements would also provide information on the Province's investment in institutional capital assets

Consolidated financial statements would also provide information about the substantial investment the Province has made in public post-secondary capital assets and the relative age of the assets in terms of remaining useful life. Information on the financing and investing activities of the sector would allow stakeholders to assess the extent to which infrastructure renewal is occurring.

Stakeholders would find the information in consolidated financial statements useful to evaluate the sector's financial performance

From consolidated financial statements, it would be possible for stakeholders to evaluate the financial condition of the sector. This information is essential for long-range sector financial planning. Such information is needed by external stakeholders to evaluate resource allocation decisions and assessments of stewardship.

Benefits of providing consolidated financial statements outweighs the costs

I acknowledge that there would be costs associated with providing consolidated financial statements. However, with proper direction to the public post-secondary institutions, these costs can be minimized and, in my view, the benefits of having complete sector accountability information significantly outweigh the costs.

Guidance of the Canadian Institute of Chartered Accountants supports preparation of consolidated Ministry financial statements

Guidance issued by the Canadian Institute of Chartered Accountants also supports the view that consolidated financial statements should be prepared for the Ministry. According to the guidance on this issue, the Ministry reporting entity should comprise the organizations that are owned or controlled by the Ministry, and are accountable to the Ministry for the administration of their financial affairs and resources. In my view, the relationship between the Ministry of Advanced Education and Career Development and the public post-secondary institutions meets this definition and is required to meet Ministerial responsibility.

Ministry provided \$858 million in grants to public post-secondary institutions

The accountability of the Minister with respect to the public post-secondary institutions is required because of the large amount of funds provided by the Ministry. In 1997-98, the Ministry provided \$858 million by way of grants to the public post-secondary institutions. It is this level of funding, the control over the other funding sources such as tuition fees and the control over programming which differentiates the public system in Alberta from private systems. In a private system, post-secondary institutions generally receive limited, or in some cases, no government funding except for sponsored research activities.

Ministry is of the opinion that the relationship between the Ministry and the institutions is a partnership

The Ministry believes that these institutions operate autonomously and that it is not in control of the institutions. In the view of the Ministry, the Minister has a role in the overall accountability for public expenditures. The Ministry and the public post-secondary institutions “share” in the responsibility of ensuring that there is a coordinated system of public institutions and programs. Rather than characterizing this relationship as parent/subsidiary, the Ministry’s Mission Statement characterizes this relationship as a partnership.

Partnerships require consolidated financial statements

Whether or not this relationship is one of parent/subsidiary or a partnership makes no difference, in my view, from an accountability perspective. Partnerships also require financial statements which report the transactions of the partners as one economic entity or in effect, consolidated financial statements.

Two concerns of Ministry with preparation of consolidated financial statements: relationships would change and accountability of Ministry would be weakened

Two concerns that the Ministry has with preparation of consolidated financial statements are that the relationship between the Ministry and the public post-secondary institutions would change and that the accountability of the Ministry with respect to its own operations would be weakened. Consolidation does not change the accountability relationship; consolidation assists financial statement users in understanding the relationship. Departmental accountability would be satisfied by producing Departmental financial statements, together with the individual financial statements of the 22 institutions.

Ministry is concerned that preparation of a consolidated budget would limit the autonomy of institutions

The Ministry is concerned that consolidation would require the Ministry to prepare a consolidated budget that would include the budgeted results for the Ministry and the institutions. To be able to ensure that sector results are aligned with those budgeted, the Ministry believes that the Minister would have to provide ongoing direction to the institutions which could have the result of limiting an institution’s activities because of the financial results of another institution.

There are a number of ways budget information could be presented

I am of the view however, that a number of alternatives are available with respect to the presentation of the consolidated ministry budget. The best presentation would be to have the consolidated budget consist of the approved budgets of the

Department and the institutions. However, in the Balanced Budget and Debt Retirement Act, the public post-secondary institutions are excluded and, as I indicated, the Ministry is strongly of the view that providing such a consolidated budget will result in negative effects. Therefore, as a first step, I would propose that the budget be a combination of the budget as reflected on the current Ministry financial statements along with the actual results of the public post-secondary institutions. In this way, the difference between the consolidated actual results and the consolidated budget would represent the variance information currently contemplated by the Act.

Consolidated reporting allows the Ministry and its stakeholders to realize the benefits of ministerial reporting

In conclusion, it is my opinion that accounting is a tool both to measure what is occurring, and to assist in improving performance. My recommendation does not seek to introduce new controls or have the partners in the post-secondary educational sector behave differently. My intention is to have the Minister of Advanced Education and Career Development and other sector stakeholders realize the potential benefits of the ministerial reporting that has been introduced in Alberta. Consolidated reporting can assist in this end without causing the Ministry to interfere in the operating decisions of the partners that make up the sector.

Department of Advanced Education and Career Development year ended March 31, 1998

In addition to the annual financial audit of the Department of Advanced Education and Career Development, the following work was completed:

- The reporting of results of applying specified audit procedures to the Ministry's core performance measures as presented in its 1997-98 annual report.
- Completion of a Year 2000 risk questionnaire to identify the susceptibility of the Department to having its operations impacted as a result of its information systems not being Year 2000 compliant.
- In response to a request from the Department, reporting on results of applying specified audit procedures on certain 1996-97 Key Performance Indicator data.

Skills Development Program

The Department has clarified the goal of the Skills Development Program and the responsibilities of its delivery partners

In my 1996-97 annual report (page 45), I recommended that the Department of Advanced Education and Career Development clarify the goal of the Skills Development Program with its delivery partners, and set output and outcome targets to facilitate performance measurement of the program. I am pleased to report that the Department has clarified the goals of the program, and the responsibilities of its delivery partners. The Department has also established certain output and outcome targets for the program. While the Department has prepared a budget for the annual total program cost, it should also set targets for the program on a cost per output and outcome basis. Currently, the Department is preparing a cost-benefit analysis. I will continue to monitor the progress of the Department in establishing cost targets.

Integrated Training Pilot Program

The Department has developed a new contracts procedures manual

In my 1996-97 Annual Report (page 46), I made several recommendations concerning contract management and the operation of the program. The program has now been completed. I am pleased to report that the Department has developed a new contracts procedures manual and procedures for monitoring contracts. I will continue to monitor the progress of the Department in implementing these procedures.

Other entities

The audit of the **Public Colleges Foundation of Alberta** for the year ended March 31, 1998 was in progress as at the date of this report.

Financial audits of the following were completed:

Non-Profit Private Colleges Foundation for the years ended March 31, 1997 and 1998

Banff Centre Foundation for the year ended March 31, 1998.

Matters related to Post-secondary Educational Institutions

Effective September 1, 1997, the Alberta Vocational Colleges became board-governed institutions. Audits of the opening statement of financial positions for the Alberta Vocational College - Lesser Slave Lake, Alberta Vocational College - Lac La Biche, Alberta Vocational College - Edmonton and Bow Valley College were completed.

Annual financial audits, for the year ended June 30, 1998, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in my next annual report.

Alberta College of Art and Design
Alberta Vocational College - Lesser Slave Lake
Alberta Vocational College - Lac La Biche
Alberta Vocational College - Edmonton
Bow Valley College
Fairview College
Fairview College Foundation
Grande Prairie Regional College
Grande Prairie Regional College Foundation
Grant MacEwan Community College
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Medicine Hat College Foundation
Mount Royal College
Mount Royal College Day-Care Society
Mount Royal College Foundation
Northern Alberta Institute of Technology
Olds College
Olds College Foundation
Red Deer College
Southern Alberta Institute of Technology

Athabasca University
year ended March 31, 1998

In addition to the annual financial audit, my staff completed a financial audit of the **Athabasca University Foundation** for the year ended March 31, 1998. My staff also conducted an examination of the process used to estimate the useful lives of the Athabasca University's buildings. The results of this work are reported on page 53.

The University of Alberta
year ended March 31, 1998

In addition to the annual financial audit, my staff completed the financial audit of the **Research Technology Management Inc.** for the year ended March 31, 1998. The financial audits of the **University of Alberta 1991 Foundation** and the **Laser Institute** for the year ended March 31, 1998 were in progress as at the date of this report.

As part of my annual financial audit, I reviewed the University of Alberta's systems to manage the Year 2000 risk and ensure the completeness of reporting of financial transactions by various University departments to the University's Department of Financial Services.

**Administrative Systems
Renewal Project****Recommendation No. 12**

It is recommended that the University of Alberta develop contingency plans to mitigate the potential adverse consequences of slippage in the Administrative Systems Renewal Project implementation schedule.

Contingency plans have not been developed to mitigate the risks from delays in the implementation schedule

The systems to be implemented as part of the Administrative Systems Renewal Project (ASRP) will replace the existing major financial, student information and human resource systems used by the University. One of the reasons for implementing the ASRP is that the major administrative systems used by the University are not Year 2000 compliant. Due to the importance of the ASRP to the University, the implementation is being closely monitored by senior management and the Board of Governors. Detailed work plans and implementation schedules have been established. However, contingency plans to mitigate the consequences of

slippage in the implementation schedule, have not been fully developed. The timelines for a successful implementation of the ASRP are tight and slippage in delivery plans may well result in serious difficulties for the University and potentially adverse effects on the University's ability to manage the risk of Year 2000 failures.

*Production of the
1999-2000 University
calendar may be at risk*

For example, one potential failure that may result if the implementation schedule slips is the production of the 1999-2000 calendar. The current student records system is known to be incapable of dealing with dates past 1999 which precludes the use of this system to produce the 1999 calendar, since one of the semesters falls in the year 2000. Since the planned implementation date for course scheduling under the ASRP project is October of 1998, and this is typically when the calendar planning begins, the implementation plan leaves very little time, if any, for slippage.

*It is prudent to have
contingency plans in place*

Some of the reasons the University has not developed contingency plans to mitigate the negative consequences of implementation slippage are because of the additional monetary costs involved and the user resources that could be required. There is also the risk that, where contingency plans exist, the ASRP project would be delayed because users would not have the same sense of urgency required for the implementation. Notwithstanding these real risks and costs, because of the tight implementation schedule and the critical nature of these systems to the University's operations, it is prudent to have contingency plans in place.

*Contingency plans could
include converting current
systems, installing manual
systems or sharing systems
with other entities*

Contingency plans may include making existing systems Year 2000 compliant instead of replacing them or installing manual systems in the event of implementation delay of the ASRP. Alternatively, the University may be able to enter into system sharing arrangements with other entities that have Year 2000 compliant systems.

**Non-Administrative Systems
Renewal Project****Recommendation No. 13**

It is recommended that the University of Alberta accelerate the process for assessing and identifying the mission critical Year 2000 risks, and potential costs to mitigate these risks, in the non-Administrative Systems Renewal Project systems.

The PMO has taken a decentralized approach to resolving Year 2000 issues

The University's systems are largely decentralized which causes significant problems in managing resolution of the Year 2000 problem. Rather than attempting to administer the issue centrally, the Project Management Office (PMO) has taken a decentralized approach, by placing responsibility with the faculties, micro and network administrators, and other groups to perform their own compliance testing and to make replacements or upgrades where necessary. Year 2000 information, such as system testing criteria, has been distributed to every staff member plus a report has been sent to all micro administrators. The PMO is only able to follow up with testing and interviews on a sample basis. Recently, they have been attempting to obtain compliance certificates from faculties and other groups such as Physical Plant and the Library to gain assurance over Year 2000 readiness.

Research groups may be relying on systems that are not Year 2000 compliant

Of particular concern are the research groups on campus who typically use their research grants to purchase equipment independent from the systems operating on campus. The PMO does not have an inventory of the equipment and software that are currently used by the research groups. Moreover, research groups typically rely on external information derived from systems which could have Year 2000 driven issues. The implications of system failure and Year 2000 affected information could be the loss of significant research grants due to faulty or abandoned research. In the near future, the PMO plans to examine the systems used by research groups to help them resolve any Year 2000 issues. However, the deadline for effectively dealing with significant issues is quickly approaching.

Management cannot assess the overall progress on Year 2000 issues

As a result of the decentralized approach taken by the University with respect to the non-ASRP applications, it is very difficult for senior management to assess the overall progress on the Year 2000 issues. For example, there is little assurance that the information dissemination process has appropriately reached all necessary individuals.

Additionally, there is a risk that all individuals responsible for performing the assessment, testing and conversion do not have the appropriate skills or knowledge. The level of assurance gained from compliance certificates will be directly influenced by these factors. The testing approach used by the PMO also may not give a high level of assurance that the problem has been appropriately addressed.

Sufficient budgeted funds may not be available to deal with unforeseen issues

Accordingly, there is significant risk regarding the University's level of Year 2000 readiness for the non-ASRP areas. In addition, there are few areas which have made formal budget allocations to address the costs associated with the required replacements and upgrades needed to mitigate the Year 2000 risk. Therefore, sufficient budgeted funds may not be available to deal with unforeseen issues.

The process of assessing the mission critical Year 2000 risks and the associated costs must be accelerated

Given the limited time available, it is critical that senior management accelerate the process of assessing the mission critical Year 2000 risks, and costs to mitigate these risks, in the non-ASRP systems. In order to gather this information quickly, the University should consider whether a member of senior management along with the various Faculty Deans should be made responsible for the success of their part of the Year 2000 issue.

The University of Calgary year ended March 31, 1998

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1998:

University Technologies International Inc. **Olympic Oval/Anneau Olympique**

The audits of the **University of Calgary Foundation** and the **Arctic Institute of North America** for the year ended March 31, 1998 were in progress as at the date of this report.

Amortization of Buildings

Recommendation No. 14

It is recommended that the University of Calgary ensure that the estimate of useful life for buildings is realistic by preparing supporting evidence. A similar recommendation was made to the Athabasca University and The University of Lethbridge.

Buildings are being amortized over 60 years instead of the sector average of 40 years

The University of Calgary amortizes the cost of its buildings and components over 60 years. I understand that part of the reason that the University and the other two universities adopted a 60 year life was to ensure consistency in the reporting of certain financial performance measures. However, the use of 60 years is inconsistent with the other 19 public post-secondary institutions which amortize their buildings using a maximum of 40 years or, in one case, 50 years.

Inadequate evidence exists to support a 60 year life

Use of a 60 year life may also be inconsistent with the CICA Handbook which recommends that the amortization period for capital assets not exceed 40 years unless an extended useful life can be clearly demonstrated. This issue was discussed with management at the beginning of the audit and my staff indicated that the University would need to provide sufficient appropriate evidence to support the financial statement assertion of a 60 year life. It was my view, at the conclusion of the 1998 audit, that the evidence provided by the University was inadequate. It is acknowledged that the amortization rate is an estimate, and subject to considerable measurement uncertainty. It is for this reason that the Handbook recommends that extended useful lives be appropriately supported. As the difference between the use of a 40 year life and a 60 year useful life has had a significant effect on the amount reported for capital assets on the financial statements, this issue needs to be resolved prior to the conclusion of the 1999 financial statement audit.

Amortization reflects the annual cost of capital asset consumption

Amortization reflects the annual cost of capital asset consumption. In order to meaningfully measure annual costs, an estimate of an appropriate useful life is critical. As indicated in the CICA Handbook, "the useful life is normally the shortest of the physical, technological, commercial and legal life. Factors to be considered in estimating the useful life of a capital asset comprise operational needs including expected future usage, effects of technological or commercial

obsolescence, expected wear and tear from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable items.”

Physical life determination should consider both the primary structure and its components

The analyses prepared by the University to support the use of a 60 year life were deficient in a number of ways. For example, they were focused primarily on the general attributes of the physical life of buildings. The support provided for physical life however, did not account for the different types of construction or construction materials. In my opinion, analysis of the physical life of buildings should consider the effect of the difference between the physical life of the primary structure and components such as heating, air conditioning, ventilation, interior development, plumbing, electrical and special systems. Certain component systems will likely need to be replaced before the building shell.

Useful life analyses should also consider the use of the buildings

The building life analyses should also consider the use of the buildings. For example, it is normal to expect that buildings supporting specialized high technology equipment and functions such as research laboratories and multimedia facilities will have a different useful life than buildings such as residences, or classroom facilities.

Changes in demographics, technology, and educational delivery methods will impact the useful lives of buildings

Moreover, the significant effects that changes in demographics, technology, and long-term trends in educational delivery methods will have on the useful lives of buildings should be included in the analyses. For example, there is expected to be a significant increase in the number of students within the next ten years. This increase alone may cause some buildings to become functionally obsolete due to capacity constraints. Accordingly, it is not prudent to rely mainly on the past history of use of buildings to predict the future useful lives of buildings.

Management must determine whether current facilities can meet the forecasted changes

A key management decision will be to determine whether current facilities are adequate to meet the forecasted changes. Establishing appropriate amortization rates is therefore an important component of capital asset planning and priority setting. When developing useful lives for buildings, it is critical to consider whether facilities should be renovated or expanded or whether building a new facility would be more cost effective. For example, lighting systems are often replaced well before the end of their physical life because of

the magnitude of the operating cost savings.

*The University may be left
with functionally obsolete
or inefficient facilities*

If these issues are not adequately addressed in the analyses determining useful life, the planned funding for the internal and external replacements will not occur at the appropriate time, and the University as a result could be forced to operate in the future with some functionally obsolete facilities and/or facilities which are not cost-effective to operate.

The University of Lethbridge year ended March 31, 1998

In addition to the annual financial audit, my staff completed the financial audit of the **University of Lethbridge Foundation** for the year ended March 31, 1998. My staff also conducted an examination of the process used to estimate the useful lives of the University of Lethbridge's buildings. The results of this work are reported on page 53.

Guidance to reader

The Ministry of Agriculture, Food and Rural Development supports the development of the Province's agriculture and food industries in their attempts to meet ever-changing market demands. The Ministry comprises the Department, the Agriculture Financial Services Corporation, the Alberta Agricultural Research Institute, the Alberta Dairy Control Board, and the Agriculture, Food and Rural Development Revolving Fund. The Ministry's 1997-98 expenditures were approximately \$485 million.

FIDP is one of the largest Ministry support programs

One of the Ministry's largest support programs is the Farm Income Disaster Program (FIDP). FIDP was introduced in the 1996 fiscal year on a three-year trial basis, with the first payments being made in the 1997 fiscal year. The program has since been extended one year. FIDP is a whole farm income safety-net program which provides financial assistance to farmers who experience extreme reductions in farm income. It is designed to support the Ministry's goal of strengthening the industry's ability to manage risk and uncertainty, while at the same time complying with international trading agreements. FIDP is funded by the Department and administered by the Agriculture Financial Services Corporation (AFSC), which paid farmers approximately \$121 million in financial assistance during the program's first two years and is estimating payments of \$99 million for the third year of the program.

The impact of FIDP needs to be measured

With the introduction of FIDP, it is anticipated that other direct government payments to farmers will be reduced. Among the risks of the program are the risks that the program will not meet the needs of farmers, and that farmers who have experienced an extreme reduction in income will not receive timely support under the program. As such, it is important that the Department measure the impact of the program on farmers and farming practices. Accordingly, I followed up my 1996-97 recommendation that the Department develop measurable evaluation criteria to determine and report on the effects of the program.

Ministry is changing focus to meet targets for value added sales and primary production

The Ministry has also continued with its efforts to improve the efficiency and cost-effectiveness of its business practices. Some of these changes are a shift in focus to help industry meet the goal of achieving \$20 billion in value-added sales and \$10 billion in primary production by the year 2005. The

Department redirected resources to the agri-food sector by providing \$35 million in seed money to the not-for-profit Agriculture Value Added Corporation in the 1996-97 fiscal year, for fostering research and development into the commercialization of value-added products. In addition, the Ministry, through the AFSC, has facilitated the capitalization of viable new agribusiness projects through alliances with other lending institutions or capital sources. These business alliances allow the AFSC to deliver a wide range of products and services including helping agricultural based businesses obtain financing from various capital sources. Through these alliances, the AFSC has a goal of facilitating an increase in investment in the agri-food sector by \$150 million per annum by 2001. The Ministry must ensure that appropriate control and monitoring systems are in place to enable senior management to monitor its exposure to financial risk under various agreements. For this reason, the 1997-98 audit work included an examination of the monitoring and approval processes within the AFSC's commercial lending area.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Agriculture, Food, and Rural Development for the year ended March 31, 1998. My auditor's reports contained reservations of opinion. The auditor's reports should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Department of Agriculture, Food and Rural Development year ended March 31, 1998

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- an examination of the evaluation criteria and the survey methodology used by the Department for FIDP was completed
- a review of the performance measures, and assistance to the Ministry in improving future accountability reporting
- a review of Year 2000 readiness.

**Farm Income Disaster
Program - evaluation criteria**

It is again recommended that the Department of Agriculture, Food and Rural Development further develop measurable targets that can be used to assess the achievement of Farm Income Disaster Program goals.

*Measurable criteria
should be developed for
the program*

In my 1996-97 annual report (page 63), it was recommended that the Agriculture Financial Services Corporation together with the Department of Agriculture, Food and Rural Development, develop measurable evaluation criteria that can be used to determine and report on the effects of the Farm Income Disaster Program (FIDP). The criteria that were being used were not always stated in measurable terms or targets. Measurable performance criteria and targets are an important pre-requisite to the meaningful evaluation of and reporting on the success of FIDP. The information collected could then be used to analyze actual claims experience under FIDP compared to forecasts. This would include evaluating the impact that unanticipated claims results had on program expenditures.

*Targets should be
quantified where possible*

I acknowledge that the Department has developed goals, measures and a methodology for evaluating the FIDP program. Further work is required, however, in determining targets. In order to evaluate the program, expected targets and results need to be understandable, relevant, reliable, comparable and cost-effective. Targets are the expectation against which results are measured. It is difficult to measure the results when the expectation is not quantified. Use of general terminology such as "most" or "insignificant" should be avoided. For example, one of the targets for the goal of responding to cashflow needs is described as "most farmers agree or strongly agree that turnaround time is reasonable". Use of such general terms makes it difficult to determine whether the target has been achieved. It may be more appropriate to define the turnaround time and then measure whether the target has been met. To enable measurement of achievement of goals, targets need to be set, whenever possible, in measurable terms.

*Targets may need to be
defined as short term and
long term*

In setting expectations, it may be appropriate to set targets in increments such that over time a goal is reached and progress toward the goal can be measured. For example, one of the administrative goals of the program is to improve the quality of applications based on the accuracy of the applications. One of the targets is to reduce the percentage of claimants

from which further information is required from 90% to 75%. This may be a target for the short term, but it may not be an appropriate measure over the long term. As another example, one other measure of accuracy is the number of claims submitted by farmers. It is unclear how this, by itself, is a measure of accuracy.

Agriculture Financial Services Corporation year ended March 31, 1998

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the Corporation's processes to administer the Farm Income Disaster Program (FIDP).
- An examination of the monitoring processes within the Corporation's commercial lending area.

Legislative amendments

It is recommended that if the Minister of Agriculture, Food and Rural Development intends to continue using the Agriculture Financial Services Corporation to administer agriculture programs on behalf of governments outside Alberta, the Minister seek an amendment to the Agriculture Financial Services Act to allow the Corporation to do so.

The Corporation administers the Whole Farm Insurance Program on behalf of the Government of British Columbia

The Minister of Agriculture, Food and Rural Development signed an agreement with the government of British Columbia to administer British Columbia's Whole Farm Insurance Program (WFIP) through the Alberta Minister's agent, the Agriculture Financial Services Corporation. The agreement was concluded on July 24, 1998 and applies until March 31, 1999. Under the agreement, the Corporation administers the program on behalf of the British Columbia Ministry of Agriculture, Fisheries and Food. British Columbia's WFIP is similar to Alberta's Farm Income Disaster Program which is also administered by the Corporation.

There is significant risk that the Corporation does not have the legal capacity to administer this program

While the Corporation may have a certain degree of flexibility to provide agriculture program advice to British Columbia, there is significant risk that the Corporation does not have the legal capacity to administer the WFIP on behalf of British Columbia.

The Minister should seek amendments to legislation

The Minister should seek amendments to the Agriculture Financial Services Act to expressly authorize the Corporation to conduct business of this nature. I have been advised that the appropriate legislative amendments are being sought.

Other entities

My auditor's reports on the financial statements of the following, for the year ended March 31, 1998, contained reservations of opinion. The auditor's reports should be read for full details of the reservation.

**Alberta Agricultural Research Institute
Alberta Dairy Control Board
Agriculture, Food and Rural Development Revolving
Fund**



Guidance to reader

The Ministry's purpose is to support community development, and through leadership, protection and partnership, help all Albertans participate fully in the social, cultural and economic life of the Province.

The Ministry delivers its programs and services through the Department of Community Development and several foundations, funds and commissions. The Department provides administrative facilities to many of the funds and foundations that fall under the Ministry of Community Development.

The Ministry is charged with the responsibility of:

- Supporting the independence and well-being of seniors by ensuring that supplementary income benefits are available to lower-income Alberta seniors. The cost of services to seniors was \$182 million.
- Promoting the development of Alberta's communities, and increasing the capacity of community organizations for self-reliance; supporting Alberta's quality of life through technical and financial support to the arts, recreation, sports, library and volunteer sectors of the province; and protecting human rights and promoting fairness and access for all Albertans. The cost for community and citizenship services was \$68 million.
- Preventing and treating addictions through the operations of the Alberta Alcohol and Drug Abuse Commission. The cost of delivering this program was \$31 million.
- Preserving, protecting, and presenting Alberta's unique cultural and natural history. The cost of operating cultural facilities and historical resources was \$22 million.

In 1997-98, the Ministry's expenditures totaled \$308 million (1996-97: \$290 million) including \$5 million for Ministerial Support Services.

Ministry of Community Development
year ended March 31, 1998**Ministry Financial Statements**

I conducted an audit of the financial statements of the Ministry and Department of Community Development for the year ended March 31, 1998. My auditor's reports contained a reservation of opinion. The auditor's reports should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Scope of audit work

In addition to the audit of the Ministry's financial statements, my staff carried out specified audit procedures on the Ministry's performance measures reported in its 1997-98 Annual Report.

Department of Community Development
year ended March 31, 1998**Scope of audit work**

In addition to the audit of the Department's financial statements the following work was completed:

- A follow-up on a recommendation I made in my last Annual Report with regard to the Department's responsibility to hold Volunteer Societies appropriately accountable for the activities transferred to them at all the museums, historic sites, and the two Jubilee Auditoria.
- An examination of the systems used by the Department to process Alberta Seniors Benefit Program applications and benefit payments. The systems were reviewed to determine whether these items were being processed in a timely manner, and in compliance with legislation and the operational policy manual.

Accountability of volunteer societies

Last year, I recommended that the Department hold Volunteer Societies appropriately accountable for the activities transferred to them

The Ministry has completed a review, and obtains quarterly reports, of all significant Volunteer Societies

In my 1996-97 Annual Report (page 74), I recommended that the Department hold Volunteer Societies appropriately accountable for the activities transferred to them at all the museums, historic sites, and the two Jubilee Auditoria. These not-for-profit societies collect the revenues from the admission fees at the museums and historic sites, and the facility rental and commissary revenues at the Jubilee Auditoria. The revenues from the museums and historic sites are to be used by the societies exclusively in accordance with the objectives of the Historic Resources Fund.

The recommendation was accepted by the Department. The Ministry has completed a review of its accountability process. For example, it now obtains quarterly reports, from all significant Volunteer Societies. Through analysis of these reports, and other techniques it ensures that the Societies are held accountable for their activities and for the funds collected.

My staff will continue to monitor the progress in implementing this recommendation.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1998:

The Wild Rose Foundation
The Government House Foundation

In addition, my auditor's reports on the financial statements of the following, for the year ended March 31, 1998, contained reservations of opinion. The auditor's reports should be read for full details of the reservation.

Alberta Alcohol and Drug Abuse Commission
Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Sport, Recreation, Parks and Wildlife Foundation
Historic Resources Fund
Human Rights, Citizenship and Multiculturalism Education Fund (formerly, Alberta Multiculturalism Fund)

Guidance to reader

The mission of the Ministry is to enhance and promote the Alberta Advantage and building a strong and prosperous economy for all Albertans. In addition to the Department, the Ministry includes Alberta Opportunity Company (AOC) and Alberta Gaming and Liquor Commission (AGLC).

The Department's core businesses include obtaining strategic information and developing external relations, attracting and developing industry, and developing trade and international markets. For the Department to be successful, it is critical that it identify client needs, and ensure that the services it provides are valuable. With this in mind, the Office examined the systems relating to the allocation of resources, and determined the benefit of services provided. The recommendations that follow point to the need for improved planning, and the need for better methods of determining the usefulness of the services delivered.

The Alberta Racing Corporation was established on October 4, 1996 by the Racing Corporation Act. It is responsible for managing and promoting horse racing, the safety and welfare of race horses, participants and officials, and safeguarding the interests of the public in horse racing. While the Corporation operates outside the government entity, it remains accountable to the Minister. My staff reviewed the accountability processes maintained by the Department which support this accountability relationship.

The Alberta Opportunity Company provides loans to Alberta Businesses which have viable business plans but cannot obtain financing from a conventional lender. The loan portfolio has increased from \$75.0 million at March 31, 1997 to \$93.7 million at March 31, 1998. In the last few years, the Company has implemented new software to manage its portfolio, and it has streamlined its operations. The efficient and effective management of its loan portfolio is central to its success. Consequently, my Office examined the Company's loan management practices.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department for the year ended March 31, 1998. My auditor's reports contained a reservation of opinion. The auditor's reports should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Department of Economic Development

year ended March 31, 1998

Scope of audit work

In addition to the annual financial audit the following work was completed:

- A review of the systems to allocate resources, and determine benefits of services provided.
- A review of the Department's processes to support the accountability of the Alberta Racing Corporation to the Minister.

Planning for branch operations

It is recommended that the Department of Economic Development prepare plans for each of its significant branch operations.

The Department is organized into a number of branches. Two of the more significant branches are the Forest Products Development Branch and the Business Immigration Branch.

At the time of the audit, there was no formal plan for Forest Products Development. With respect to Business Immigration, there was a draft copy of a document entitled "Business Immigration – international marketing strategy" which discussed the branch's mission and goals.

A plan for each significant branch would assist branches in managing and focusing their efforts. It would also assist the Department in the preparation of its overall business and operational plans. In my view, an effective plan would have the following attributes:

- Goals
- A clear link between the goals of the branch and the Department
- A description of actions needed to meet branch goals
- The key external factors affecting goals
- Performance measures

The results that the branch intends to achieve should be documented in the plan

Each branch's goals should be an extension of a clearly stated Departmental mission. Setting long-term strategic goals is essential for results-oriented management, because such goals explain in greater specificity the results that the branch intends to achieve. The goals will form a basis for the branch to identify potential strategies for fulfilling the mission of the Department. For example, the goal of the Forest Products Development branch could include the encouragement of growth of the forestry industry and increasing diversification, particularly into secondary industry and value added products.

The plan should include action steps needed to meet the branch's goals

The plan should specifically identify the actions needed to meet the branch's goals. For example, if the Forest Products Development branch plans to address the issue of limited fiber resources, it should elaborate on the approach that it would adopt and on the challenges that threaten its ability to meet its goals. For each approach, the plan should also identify resource requirements, schedules for completing key actions, and ways for assigning responsibility to the staff involved. The resource requirements could be in terms of operational processes, staff skills, and technologies, as well as human, capital and other requirements. This will enable the Department to allocate resources in response to requirements of the branch and in congruence with its overall strategy. Currently, the basis of resource allocation to some branches is not clear.

There should be linkage between the goals of a Branch and the Department's goals

From information provided, it was not clear how each branch contributes to the Department's goals. A branch plan should set out which Departmental goals it contributes to, and how this contribution will be made. For example, in the Department's 1998-2001 Business Plan, there are no references to business immigration, and the development strategy for Alberta's forest industry under various goals. Such linkages are important because the Department's goals and objectives provide direction for a branch.

External factors can influence the achievement of a goal and should be discussed in plans and reports

External factors can influence the achievement of a goal directly and significantly. For example, the Provincial land use policies (e.g. Integrated Resource Management and Special Places 2000 Project), could have a significant impact on the Forest Products Development branch's ability to achieve some of its goals. Identification of parallel initiatives can lead to harmonized effort and greater efficiency.

Benchmarks and targets should be established in the plan

The plan should also describe how a branch proposes to evaluate the achievement of its goals and objectives. For this purpose, targets should be established. For example, a useful measure of performance for Forest Products Development branch might be the value added to a unit of raw material input. There should also be information as to how the performance data is to be collected.

Determination of value and utility of services provided

It is recommended that the Department of Economic Development obtain systematic and objective feedback to determine the value and utility of services provided.

There was no formal feedback mechanism in place for the branches visited. In the case of the Forest Products Development branch, it did not have information on whether the services it provides meets the needs of existing and potential investors in the forestry industry. Nor was there information on whether the branch serves business in a way that is effective, consistent and reflecting mutually understood levels of service. The branch does hold regular meetings with the Alberta Forestry Association. However, the branch has not conducted specific surveys of industry and other stakeholders to determine their requirements for information or the value of its research and publications.

Formal feedback mechanisms need to be in place

The Business Immigration branch did not have any indication of whether its services are essential, whether business immigrants benefited from its services, or if business immigrants would have immigrated without its assistance. While the Department has anecdotal evidence suggesting that there are benefits to the promotional activities of the branch, there is no indication of their magnitude and effectiveness.

Improved feedback would enable the Department to assess the effectiveness of services

More systematic and independent feedback of results would enable the Department to assess the effectiveness of services provided and allocate resources with a greater understanding of the expected benefits.

I understand that the Department intends to obtain comprehensive feedback on services provided through surveys and other methods.

Alberta Tourism Partnership

In my previous annual report (page 79), I made two recommendations concerning:

- the re-negotiation of an agreement with Alberta Tourism Partnership Corporation (ATPC) to improve the accountability framework and performance reporting, and
- the determination of the appropriate amount to be paid to ATPC based on the benefits expected to be gained through the agreement.

The agreement with ATPC was terminated, and an interim manager appointed

In January 1998, the Minister of Economic Development announced the cancellation of the agreement with ATPC citing concerns regarding accountability and performance measures and also the findings of an independent audit commissioned by the Department. The agreement was terminated on March 1, 1998, and a private sector firm of chartered accountants were appointed to manage the contract on an interim basis.

At that time, the Minister requested that my staff participate in a review of performance measures to be included in the new contract relating to tourism marketing. Due to changes in the plan to develop a new contract, which is discussed below, performance measures have not been available for review by my staff.

Results of an extensive consultation process indicate the need for the Department to deal with significant issues

The Department has conducted a broad based consultation process with tourism industry stakeholders to obtain views and suggestions for how best to deliver government funding to industry. The results of that study were released on June 25, 1998. Stakeholders identified the following issues: the level and sources of funding for tourism marketing, the need for an effective strategic marketing plan, up-to-date and accessible tourism market research, better coordination of

international marketing efforts, the role of government in marketing and improved accountability.

A new framework for tourism marketing was announced recently

The Department has reviewed the issues, and has recently announced a new framework that is built on the concept of seven core programs. Of these, three marketing programs will be delivered through fee-for-service contractors, and four marketing-related programs will be managed by the Department of Economic Development. The seven core programs will be integrated under a Strategic Marketing Plan guided by a Strategic Tourism Marketing Council who will be assisted by a small group of marketing professionals operating as the Travel Alberta Secretariat. The organizational and planning elements of the new framework are to be in place this fall.

Alberta Racing Corporation

The Corporation was established on October 4, 1996 by the Racing Corporation Act (the Act). Section 4 of the Act charges the Alberta Racing Corporation (the Corporation) with the responsibility:

- (a) “to govern, direct, control, regulate, manage, market and promote horse racing in any or all of its forms;
- (b) to protect the health, safety and welfare of race horses and, with respect to horse racing, the safety and welfare of racing participants and racing officials;
- (c) to safeguard the interests of the general public in horse racing”.

Background on the Corporation

In order to meet its responsibilities, the Corporation is provided with authority to make by-laws and rules that govern the operation of all parties involved in the racing industry. It also has the authority to inspect businesses and if non-compliance is noted, it can then impose sanctions including cancellation of license and the imposition of monetary penalties. Also, the Corporation is given the authority to collect fees to fund its operations. The largest source of revenues is a general fee charged on wagering. This general fee is similar to the tax previously charged under the Pari Mutuel Tax Act (repealed October 31, 1996).

The Corporation is governed by a Board of up to seven members. Two of these members are appointed by horse breeder associations. The remaining five are appointed by a vote of at least two-thirds of the existing Board members. The Minister has the authority to appoint members to the Board if the Board is unable to do it themselves.

An annual report for the Corporation is required by the Act

The Act requires the Corporation to prepare an annual report and deliver it to the Minister, who is then required to lay a copy before the Legislative Assembly. The Minister also has the authority to request reports on specific matters, in the manner and at the times, required by the Minister.

Accountability of Alberta Racing Corporation

Recommendation No. 15

It is recommended that the Department of Economic Development establish a process to support the accountability of Alberta Racing Corporation to the Minister for the execution of its responsibilities.

Mechanism to monitor the Corporation's execution of its delegated responsibilities is inadequate

The Department of Economic Development does not have a process in support of the accountability relationship between the Corporation and the Minister. Also, other than the annual report, there is no legislated requirement for receipt of business plans or other information that could be used to monitor the Corporation's execution of its responsibilities. Further, the legislation provides limited guidance on the content of the annual report. Pursuant to the Act, the Minister is to receive from the Corporation annually "a report summarizing its affairs during the last fiscal year and showing its revenue and the application of its expenditures during the period together with an audited balance sheet for its accounts and financial transactions during the period." As noted, the Act provides the Minister with a general authority to request reports on specific matters. The Department can use this authority to obtain information required to monitor the Corporation.

During the course of our audit of the Corporation, we observed a number of deficiencies in its business practices. From discussions with the Corporation, we have learned that it is working to address the various concerns that have been raised. However, as noted there is no formal mechanism within the Department to monitor the Corporation progress in addressing these concerns.

A good monitoring system would assist government and industry

Accountability processes should start with the plan, provide information for monitoring the progress of the plan at a high level, and finally include a report measuring actual performance against the plan. Establishing an appropriate system would assist the government and the Corporation in meeting their respective responsibilities to, and for, the industry.

Alberta Racing Corporation year ended December 31, 1997

Business Practices

It is recommended that the Alberta Racing Corporation review and improve its business practices and internal controls.

Business processes could be improved

During the course of the annual financial statement audit, the following need for improvements in business practices and internal controls was noted:

Better cash management systems are needed

- During 1997, the Corporation held a relatively large cash balance. At December 31, 1997, the balance of cash was approximately \$950,000 and the average amount of cash held during the year was about \$500,000. It is good business practice to keep cash balances at a minimal level. A sound cash management system includes monitoring the level of cash held and the investment of significant cash balances.

Systems to collect payments need improvement

- We noted that race tracks were late in remitting the general fees and promotional levies and were not charged interest on late payments. Regulations state that race tracks “must remit to the Corporation the fees and levies within 7 days of the last day of the week in which the horse race or race meeting was held” and “must pay to the Corporation interest on late payment.” By ensuring that tracks remit their fees promptly, the Corporation would maximize its interest revenue and enhance control over cash.

Bank reconciliations should be approved by management

- The Corporation does not have procedures for management approval of the bank reconciliation. Management approval of the bank reconciliation is considered an important control in a small organization such as the Corporation. It ensures that the reconciliation

is done correctly and promptly.

*Policies for making loans
are inadequate*

- At December 31, 1997, the amounts advanced to two racing organizations totaled approximately \$310,000. In both cases, these loans had been approved without evidence of cash flow projections or default security. Also, the Corporation did not have appropriate documentation to support the loans, e.g. agreement, repayment terms, and interest rate. This situation results in an increased risk of loss should these organizations default on their loans. Good business practice requires that loan agreements be obtained prior to the release of any funds. Policies should be established to require receipt of documents on a timely basis. The Corporation has subsequently obtained the necessary supporting documentation.

*Sound documentation and
authorization procedures
should be established*

- A number of transactions were not supported by adequate documentation. For example, no documentation and authorization was found for the hiring of three employees, the termination of two employees, the extension of an employee's contract and the work of a consultant. A reliable internal control system can assist the Board and management in achieving the Corporation's objectives. The approval process and maintenance of appropriate documentation are important and integral parts of this system.

Year 2000 Compliance

It is recommended that the Alberta Racing Corporation promptly prepare and implement a plan to ensure that information technology that it relies upon is Year 2000 compliant.

*The risk to business
operations has not been
assessed*

We have completed a review of action taken by the Corporation to ensure that computer systems that it relies upon will be able to handle the changeover from 1999 to 2000. We noted that the Corporation is in the preliminary stages of gathering information on what areas will be affected, and therefore, a comprehensive plan has not been developed. The extent of risk to business operations has not been determined.

As the time available is limited, management should take immediate steps to ensure that the Corporation's application systems, hardware and software will not fail and disrupt operations. A comprehensive Year 2000 plan should address all aspects of information technology, including hardware, software (both purchased and developed internally) and internal and external data sources relied upon by the Corporation. The plan should also identify timelines, and human and financial resource requirements.

Lottery Fund year ended March 31, 1998

The Lottery Fund pays grants to support many activities

Lottery fund grants more than doubled from \$107 million in 1996-97 to \$253 million in 1997-98. Last year, as in previous years, Lottery Fund grants have been used to provide government support for health, community development, culture, agriculture, recreation and education.

Responsibilities between the Alberta Gaming and Liquor Commission and various ministries overlap

Over these past years, the Alberta Gaming and Liquor Commission recognized an overlap with the various ministries providing services in areas receiving Lottery Fund grants, and has placed, and continues to place reliance on those ministries for holding grant beneficiaries accountable. This overlap in responsibility may have complicated the issue of determining whether the Province is achieving the expected benefits from the use of Lottery Fund grants.

Accountability framework for grant expenditures from Lottery Fund

Responsibility for accountability should be placed with the appropriate ministry, and grant beneficiaries should report results in terms of expectations

Recommendation No. 16

It is again recommended that the accountability framework for grant expenditures made from the Lottery Fund be improved.

A similar recommendation was made in the 1995-96 and 1996-97 annual reports (page 19 and 82). While I am pleased the government has agreed with the recommendation, and has undertaken to pursue remedies, no action has yet been taken. My recommendation is directed towards improving the accountability framework in two respects: responsibility for obtaining accountability from grant beneficiaries should be placed upon the appropriate ministry and thus beneficiaries should be required to report results in terms of expectations established in their business

plans; those ministries should be accountable to the Legislature for the expectations of and results from the payment of Lottery Fund grants.

I shall be pleased to review proposals for change and provide advice and assistance, if required.

Alberta Opportunity Company year ended March 31, 1998

Scope of audit work

In addition to the annual financial audit, a review of the loan processing systems at Alberta Opportunity Company was completed.

Loan management systems

It is recommended that Alberta Opportunity Company continue to streamline loan processes to increase efficiency and effectiveness.

The company has made progress in streamlining loan processes however, further effort is still required

Over the past few years, Alberta Opportunity Company has instituted a plan to decentralize and streamline loan processes. The company has made significant progress in streamlining, and is currently implementing an Enterprise Information System that will further assist in this process. However, further effort is still required. Additional opportunities to increase efficiency and effectiveness of the loan process include:

- Modifying the loan approval process to reduce approval times.
- Implementing a direct debit system for customer payments.
- Eliminating redundant disbursement approvals.
- Utilizing the knowledge of lending officers in determining loan provisions.
- Communicating experience gained from loan failures in order to benefit future loan decision making.

A risk focused internal audit plan should be implemented

Part of the change in operations included a shift of greater authority and responsibility to branch staff. With this change in roles and increasing responsibilities of employees, an internal audit function should be implemented. This function should focus on identifying the risks of the business and ensuring compliance with procedures designed to minimize these risks.

**Effect of loans made on the
Alberta economy**

*Contribution to the
Alberta economy should
be considered when
investigating loans*

It is recommended that Alberta Opportunity Company formally assess the impact that its loans will have on the Alberta economy.

Alberta Opportunity Company's mission is to "advance the economic development of Alberta by providing loans to Alberta businesses that have viable business proposals, when such support is not available from conventional lenders".

Having lending officers assess how prospective loans will advance the economy of Alberta could lead to more lending opportunities. If the opportunities to advance the economy of Alberta are strong and well documented in the loan report, the loan decision making process would be improved. As a result, loan applications that may have been declined in the past because of poor credit risks associated with the loan may prove to be acceptable in light of the potential benefits to the economy. This is consistent with the Company's legislative mandate.

It is important to recognize that this will require careful risk management to ensure that there is a balance between the higher risk being taken and the benefit to the Alberta economy. However, if managed effectively, this approach can enhance the company's ability to meet its goals.

Development of plans

*Development of a
succession and training
plan is required*

It is recommended that Alberta Opportunity Company assess its current and future staffing needs, and establish staffing plans and programs to address any identified issues.

The recent substantial cutbacks in Alberta Opportunity Company's staffing levels have significantly increased the average age of the loan officers, branch managers and senior management. Consequently there is an expectation of employee attrition through retirement, and therefore planning for the future is very important. This planning should include:

- Development of a succession plan to ensure the continued availability of knowledgeable staff.
- Development of training strategies and programs. It is anticipated that new employees will be hired due to the expected attrition through retirement. A formal, effective

training program will assist in ensuring new loan officers have the appropriate training.

- Enhancing the communication of policies and procedures.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1998:

Alberta Gaming and Liquor Commission
Alberta Motion Picture Development Corporation (*The Corporation ceased operations effective March 31, 1996*)

Economic Development and Tourism Revolving Fund

Guidance to reader

Funding for schools is distributed through the Alberta School Foundation Fund

The mandate of the education system in Alberta is to ensure that all students have the opportunity to acquire the knowledge, skills and attitudes needed to be self-reliant, responsible, caring and contributing members of society.

Education is delivered primarily through a network of schools within publicly funded school jurisdictions. Authority over these jurisdictions is given to publicly elected school boards. Schools are responsible for providing instructional programs that enable students to meet Provincial completion requirements and prepare them for entry into the workplace or post-secondary studies. The Department of Education provides approximately \$1.7 billion of funding to schools in addition to the \$1.2 billion raised from property assessments, which are distributed through the Alberta School Foundation Fund. Total operating expenditure for the Ministry of Education is as follows:

1993-94	\$3.0 billion
1994-95	\$2.7 billion
1995-96	\$2.7 billion
1996-97	\$2.7 billion
1997-98	\$2.9 billion

For the year ended March 31, 1999, the government expects Provincial spending on education to increase to \$3 billion.

Student performance is a critical measure of the success of the education system

The performance of students in the public education system is a critical measure of the success of the education system. In previous years, I have commented on the education system as a whole in terms of the benefits of setting local targets for academic achievement and comparing the academic performance of similar schools, programs and instruction methods. Since then I have focused on specific segments of the entire system in order to maximize the benefits available in those areas. For example, last year I made recommendations to the Ministry about the reporting, accountability and governance of charter schools.

During the year, my Office commenced an examination of the Department's systems to monitor the quality of education delivered to Aboriginal students. In Alberta, education is delivered to Aboriginal students in two ways - through the

public education system and through band-operated schools on reserves. I will report on the results of this work when it is complete.

The following section includes recommendations related to the delivery of education to special needs students which are intended to improve student performance as well as achieve efficiencies sector-wide. I believe that a more detailed analysis of the performance of special needs students will help the Department to identify strategies for improved student learning in this specialized area.

As part of the funding framework, the Department provides high school funding based on course completion of students. One of my recommendations addresses concerns over the lack of evidence obtained by the Department to support the funding paid for high school course completion. If funding is based on some measure of performance, the performance should be defined and measured accurately and it should be verifiable.

Section 19 (3.1) of the Auditor General Act requires me to report on the results of my examinations of school jurisdictions' audited financial statements. Except for Northland School Division, I am not the auditor of any school jurisdictions. Where I am not the auditor of school jurisdictions, the Auditor General Act requires the auditors to provide me with a copy of the audited financial statements and management letters containing observations arising from the audits. My staff have reviewed the results of these audits, and this section includes the resulting recommendations on improvements to school jurisdiction controls over school generated funds. The Department's monitoring of school jurisdiction financial reporting is included in the following section.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Education for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in

my auditor's reports on ministry and department financial statements.

**Consolidated reporting
entity**

The Ministry of Education does not currently consolidate the financial results of school jurisdictions in the consolidated financial statements of the Ministry. The consolidation of school jurisdictions' results with that of the Ministry would provide better information to government for decision-making purposes. For example, consolidated results would provide a more complete understanding of the costs associated with the delivery of education, including how resources are being spent on each type of service, and the total value of the assets available for the delivery of education, such as school buildings. Complete information on full costs would help guide the allocation of resources among competing sectors.

**Department of Education
year ended March 31, 1998****Scope of audit work**

In addition to the annual financial audit, the following work was carried out:

- An examination of the systems used by the Department to determine the requirements and monitor the learning of special needs students.
- A follow-up on the advancement of accountability in charter schools.
- An examination of the systems used to encourage innovation through alternative schools and programs.
- A follow-up on the system used by the Department to support credit enrollment unit funding
- A review of the results from school jurisdiction audits for the fiscal year ended August 31, 1997, in accordance with the reporting requirement of section 19(3.1) of the Auditor General Act.

Special Needs Education

Background

Special needs education refers to programs and services provided to students with special needs so that they can receive a quality education. Special needs students are classified as mild, moderate, severe, or gifted and talented. The aggregate expenditure on severe needs students, as reported in the audited financial statements of school jurisdictions, was \$67 million for the year ended August 31, 1997. This represents 2% of total school jurisdiction spending. The population of severe needs students in the Province is approximately 5,000, representing 1% of the total student population.

School jurisdictions receive funding for students with mild or moderate disabilities, and students who are gifted and talented, for their special education programs through a block allocation for instruction. However, school jurisdictions are entitled to \$8,910 per student with severe disabilities (for schools year ending August 31, 1997 and 1998) in addition to the Basic Instruction amount of \$3,686 per student. A severely disabled student is one who is blind, deaf, or who has severe mental, emotional/behavioral, medical, or physical disabilities. The additional funding is intended to be used to cover the costs of extra staff, equipment, and learning resources.

Financial reporting

Many school jurisdictions do not have systems to accurately track all related costs for severe needs students

Recommendation No. 17

It is recommended that the Department of Education work with school jurisdictions to improve the accuracy of the financial reporting of special needs expenses by school jurisdictions.

School jurisdictions are required by the Department of Education to report revenues and expenses for students with severe needs in a schedule to their financial statements. This schedule is not subject to a full audit by school jurisdictions auditors. Based on a review of the financial statements for all school jurisdictions for the year ended August 31, 1997, there are wide ranges in the reporting of expenditures for students with severe needs. School jurisdictions have indicated that in many cases they do not have the systems in place to allocate overhead costs.

Consistency of school jurisdictions' financial reporting is important for Departmental decision-making

Because financial reporting influences decision-making by the Department, including the funding for students with special needs, the accuracy of this information is essential to make proper funding decisions. During the year, the Department reviewed and revised the funding allocation for special needs students. The review was based on cost information obtained directly from school jurisdictions and schools, on a sample basis. The Department indicated that the financial statements were not used to obtain this information because it is not confident that the expenses for special needs students reflect all the related costs.

The Department should monitor special needs expenditures reported by school jurisdictions

For fiscal year 1998-99, school jurisdictions will also be required to report on the revenues and expenditures for mild and moderate students with special needs in a schedule to school jurisdiction financial statements. It is essential that there are clear definitions of which types of expenditures should be included in this reporting. Expenditures and revenues should include all of the direct and indirect costs and revenues that can be reasonably attributed to students with special needs. The Department should have procedures in place to monitor the reporting of these expenditures to ensure that they are reasonable and that there is consistency in the allocation of overhead costs.

Analysis of academic performance

Recommendation No. 18

It is recommended that the Department of Education analyze the academic performance of students with special needs at the Provincial level to facilitate the identification and utilization of effective learning strategies.

Departmental analysis of the academic performance of students with special needs is limited

The Department of Education administers Provincial achievement tests on an annual basis for certain grades and core subjects. The Department analyses these results on an overall basis to evaluate and report on the performance of the education system. An analysis is also carried out on the results of students with special needs at the Provincial level. However, the analysis is limited because many students with special needs do not write the tests. Also, the analysis is not sufficiently detailed to interpret significant trends in the results.

All students are expected to write Provincial achievement tests

The Department's policy with respect to the participation of students with special needs in the Provincial achievement tests is that all students are expected to write the tests unless a student is not capable of responding to the test or if participation would be harmful to the student. In these circumstances, the superintendent, on the recommendation of a school principal, may excuse the individual student from writing the test. The results of the Provincial achievement test for mathematics in 1997 indicate that 51% of the 1,873 students with severe needs enrolled in grades 3, 6 and 9 did not write the exams. Of this same total, 44% of the students were excused by the school jurisdiction superintendents. Of the 10,411 mild and moderate students with special needs in grades 3, 6 and 9, 18% did not write, and 14% of the students were excused.

The Department should monitor the percentage of students with special needs who are excused from exams and follow up on unusual variances

Although general guidance is provided to school jurisdictions as to when a student may be excused from completing a Provincial achievement test, no specific examples are provided to assist principals and superintendents in their determination of when a student should be excused from writing the exam. Consequently, it is difficult to determine if the guidelines are applied consistently throughout the Province. The Department should continue to monitor the percentage of students with special needs excused from the exams, but should also obtain explanations for unusual or significant rates of excused students. Wherever possible, students should be encouraged to write the Provincial achievement tests.

The Department should obtain other performance information when students are excused from Provincial achievement tests

In cases where students cannot write the tests, other recognized and quantifiable means of assessing performance should be used to measure their educational performance. For example, if a large number of students do not write the exams, the Department could review individualized program plans (IPPs) to summarize the progress of those students. An IPP is a plan that is prepared, by the teacher, for each student with a severe, mild or moderate special need to identify the student's unique learning needs by identifying services required, areas of need and classroom accommodations.

Analysis of Provincial achievement test results would assist the Department in identifying areas for improvement

The Department should also analyze the Provincial achievement test results to identify areas for improvement within the system. If the analysis of results identifies areas for further investigation, the Department could selectively review IPPs in order to ascertain where improvements to learning strategies could be made or where more classroom resources are required. The Department has initiated a process to address issues related to measuring the performance of students with special needs.

Charter School Accountability

Recommendation No. 19

It is again recommended that the Department of Education ensure that each charter school's business plan identifies mandate-related performance measures, together with targets and strategies, that will be used to demonstrate the improved results occurring from innovative learning practices. It is also recommended that the business plan contain the criteria against which the renewal of the charter will be evaluated.

In my 1996-97 annual report, I reported that charter schools do not identify measures to demonstrate enhanced learning

In my 1996-97 annual report (page 86), I stated that the Department of Education does not ensure that each charter school's business plan identifies mandate-related performance measures to demonstrate the expected improvement in results occurring from innovative learning practices. I also stated that the business plans do not contain the criteria against which the renewal of the charter will be evaluated.

Charter schools are public schools that provide a basic education in a different or enhanced way to improve student learning. Each charter school is created upon the approval of a charter, which is an agreement between a school jurisdiction or the Minister of Education and the individual or group establishing the charter school.

Until August 31, 2000 the Department will be unable to assess the performance of charter schools in terms of their mandate-related goal

Although the Department is beginning to develop new guidelines for charter schools' business plans, which include the requirement of a mandate-related goal, this guideline will not be implemented until the finalization of updated regulations in December 1998. Consequently, updated business plans that include measures of enhanced or improved learning cannot be expected before April 1999. Until the end of the 1999-2000 school year, the Department

will be unable to assess the performance of the charter schools in terms of their mandate-related goal. In addition, the Department requires each charter school board to submit its proposed process for the renewal of the charter school to the Department by the end of the 1998-99 school year. Any renewals occurring prior to that school year may not be subject to a rigorous evaluation against criteria established at the beginning of the charter term.

The Department should continue to seek ways of providing charter boards with the expertise and knowledge they require

Although I am pleased to report that steps have been taken by the Department to provide guidance and support to charter school boards to assist them in carrying out their roles and responsibilities, the Department should continue to seek mechanisms to provide boards with the expertise and knowledge they require to carry out their responsibilities. The Department now provides an annual in-service session to the boards to highlight the requirements of the School Act and to outline the roles and responsibilities of the boards. In addition, the Association of Alberta Public Charter Schools was formed to help charter school boards to share their concerns and work towards solutions. However, during 1997-98, certain charter school boards encountered significant problems in the administration of their schools. As a result, one charter school was closed and two charters were not renewed. Particularly in the early stages of a charter school's term, it is important that the Department play an active role in ensuring that the boards and schools are provided with the tools they require to be effective.

Innovation - Alternative Programs

Background

One of the results of Goal 2 in the three-year business plan of the Ministry of Education is to provide parents with greater opportunity to select schools and programs of their choice and enable greater parent/community involvement in education. This is being done largely through the use of different educational delivery models, such as charter schools, home education, virtual schools, outreach programs, private schools, and alternative programs. My examination this year was limited to the use of alternative programs within the public education system.

An alternative program, as defined in section 16(1) of the School Act, means “an education program that (a) emphasizes a particular language, culture, religion, or subject matter, or (b) uses a particular teaching philosophy.” The following observation relates to the examination:

Alternative programs

It is recommended that the Department of Education work with school jurisdictions to identify and promote the availability of alternative programs to meet student needs.

The Department does not track information on the alternative programs offered by school jurisdictions

The Department does not currently track information on the alternative programs offered by school jurisdictions. There is also a lack of clarity amongst school jurisdictions about what constitutes an alternative program, which makes tracking somewhat difficult. Information on successful alternative programs would be useful in providing parents with information about educational choices as well as enhancing opportunities for improved learning by sharing best practices in these programs across school jurisdictions. The Department should develop guidelines to assist school jurisdictions in classifying alternative programs to facilitate information gathering.

Best practices should be identified and shared between school jurisdictions

There are a number of ways in which systems and practices could be improved upon to achieve program objectives. For example, by developing a database of alternative programs, the Department could improve reporting to ensure that school jurisdictions are accountable for alternative programs and develop a resource base for other schools and parents to network with. A data base or other form of accessible reference source would give information to enable all schools to network within the education system and share ideas and successes of various programs. Alternatively, the Department could work with school jurisdictions to collect information regarding successful alternative programs and make this information available across the education sector.

Alberta School Foundation Fund

year ended March 31, 1997

Credit Enrollment Units

I reported last year that the Department does not ensure that all funding requirements are met before funding is provided to the school jurisdictions

The Department should ensure that funding for high school students is only provided when all of the requirements have been met

In my 1996-97 annual report (page 88), I stated that the Department does not ensure that all requirements for credit enrollment unit (CEU) funding are met before funding is provided to the school jurisdictions. Although I am pleased to report that the Department recently implemented a plan to monitor school jurisdiction funding claims, the Department has not yet obtained any evidence that funding claims are adequately supported.

Historically, the Department was unable to ensure that funding of CEUs was only provided when all of the requirements had been met because there was a lack of documentation available from schools regarding attendance and completion of course content. A new requirement for maintaining adequate documentation became effective September 1, 1997, which should help the Department to conduct its field reviews of school jurisdictions. The Department has developed a CEU Funding Eligibility Monitoring Plan, which commenced implementation in May 1998. However, for the year ended March 31, 1998, the Department again could not ensure that funding of CEUs was only provided when all of the requirements had been met.

Financial Reporting in the Education Sector

School Generated Funds

School Generated Funds are funds raised in the community that come under the control and responsibility of school principals

Recommendation No. 20

It is recommended that the Department of Education work with school jurisdictions to provide guidance on systems of internal control over the collection and expenditure of School Generated Funds.

School Generated Funds are funds raised in the community that come under the control and responsibility of school principals and are to be used for student activities. As defined in the Institute of Chartered Accountants of Alberta (ICAA) Supplementary Report of the Task Force on School Board Reporting in Alberta, these funds are collected and retained at the school for expenditures made at the school level.

Although \$105 million in school generated funds was reported last year, 77% of school jurisdictions' auditors had concerns over the inadequacy of controls over the completeness of this revenue

The ICAA Task Force Report on School Board Reporting and reports from the Department require all school jurisdictions to include School Generated Funds in their financial statements. For the school year ended August 31, 1997, school jurisdictions reported that approximately \$120 million was received and expended for student activities which did not fall within the envelope of Provincial funding. However, for the same year-end, 63 of 82 (77%) School Jurisdiction audit reports were qualified because controls over the completeness of School Generated Funds were not adequate.

Adequate controls should be in place over the collection and recording of School Generated Funds

It is important that school jurisdictions establish appropriate controls over the collection and recording of School Generated Funds, so that school jurisdiction financial statements accurately reflect all revenues and expenditures. In this way, school management would be properly accountable for the funds under its administration. When all school operations are reflected in school jurisdiction financial statements, an accurate determination of total student education costs can be achieved.

The Department could facilitate the implementation of appropriate controls

Although sections 44(1) and 44(2) of the School Act indicate that it is the responsibility of school jurisdiction management to establish rules, regulations, and procedures, the Department could facilitate the implementation of appropriate controls by collaboration with school jurisdictions.

Financial analysis of school jurisdiction financial statements

It is recommended that the Department of Education conduct a more thorough review and analysis of school jurisdiction audited financial statements so that financial reporting can be continuously improved and potential efficiencies can be identified.

The Department should analyze school jurisdiction financial statements

The Department of Education should review all audited school jurisdiction financial statements and management letters and prepare analyses of the data presented therein. The Department has procedures in place to assess the performance of the education system in terms of student results. This approach, however, does not allow the Department the chance to identify areas where greater financial efficiencies might be discovered in the delivery of education. In fiscal 1998, approximately \$3 billion in funding was provided by the Province of Alberta as a financial allocation to school jurisdictions; in addition,

approximately \$100 million was raised independently by school jurisdictions. The Department should assess whether these funds are being used in an effective and efficient manner on a Province-wide basis.

The Department does not currently analyze financial data to identify trends and problems

As part of the existing accountability process, the Department collects information related to school jurisdictions, including business plans, budgets, audited financial statements, and results reports. The Department reviews the financial statements to ensure compliance with regulations. For example, spending limits and excess spending are identified. However, the Department does not use this information to analyze the data for management purposes. For example, management should consider analyzing liquidity ratios and the expected future service lives of capital assets. Management letters from school jurisdiction auditors are not systematically gathered or examined, nor are unusual variances in financial reporting followed up by Department staff. By analyzing this type of information and communicating findings to the school jurisdictions, the Department and the school jurisdictions could identify trends and problems, and seek solutions.

Other entities

Financial audits of the following were also completed:

Northland School Division No. 61 - year ended

August 31, 1997

Teachers' Retirement Fund - year ended August 31, 1997

In addition, my auditor's reports on the financial statements of the following, for the year ended March 31, 1998, contained reservations of opinion. The auditor's reports should be read for full details of the reservations.

Alberta School Foundation Fund
Education Revolving Fund

Guidance to reader

The Ministry of Energy comprises two organizations, the Department of Energy and the Alberta Energy and Utilities Board. In addition, the Alberta Petroleum Marketing Commission and the Alberta Oils Sands Technology and Research Authority are managed by staff of the Department. The mission of the Ministry, as described in Budget '98, is "to optimize the sustained contribution from Alberta's resources in the interests of Albertans".

Each year my attest engagement in the Department of Energy focuses on the non-renewable resource revenue flowing to the Province from the oil and gas industry. These revenue flows are critical to the Province's development. For 1996-97, these revenues exceeded \$4 billion; for the current fiscal year 1997-98, they approached \$3.8 billion. Historically non-renewable resource revenues contribute 20% or more to the Province's consolidated revenue.

Natural gas and by-product royalty forms an increasing portion of non-renewable resource revenue. In 1996-97, gas royalty was \$1.3 billion; in 1997-98, \$1.7 billion. Given the magnitude of these revenues, it is essential that a strong control environment exist within the Department of Energy to manage this royalty business. I have commented in my past three Annual Reports about the difficulty that the Department has had in implementing a new natural gas and by-product royalty system. 1997-98 marks the first year in which the Department's systems to monitor, calculate, and control the revenue flow for this new system have been current and stable. As a result, my staff focused their efforts on determining the status of gas royalty controls. Included in this section of my Report are two recommendations that would, in my view, enhance the control environment that supports the gas royalty business.

The Ministry supports the sustained contribution of non-renewable resources to the Province's benefit by supporting research in a number of energy-related areas. One sector that receives significant support is the heavy oil and oil sands industry. The Alberta Oil Sands Technology and Research Authority is the entity through which this support reaches industry, researchers, and academics. In this year's Report, I monitor progress on the recommendation that I made last year regarding the Authority's cash and fund balances.

Ministry of Energy Financial Statements
year ended March 31, 1998

I conducted an audit of the financial statements of the Ministry and Department of Energy for the year ended March 31, 1998. My auditor's reports contained several reservations of opinion. The auditor's reports themselves should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on the ministry and department financial statements.

Department of Energy
year ended March 31, 1998**Scope of audit work**

In addition to the annual financial audit, the following work was completed:

- In the past year my staff reviewed the control and processing environment related to the Department's Mineral Revenues Information System (MRIS). MRIS is a large and complex automated system which controls the Department's natural gas and by-product royalty business.
- My staff followed up the recommendation from last year with regard to the growing cash and fund balances in the Alberta Oil Sands Technology and Research Authority.
- My staff performed specified audit procedures on the performance measures which appear in the Ministry's Annual Report.
- My staff reviewed plans to address the Year 2000 issue with regard to the Department's many automated systems.
- At the request of the Department, my staff reviewed proposed electricity legislation.

Natural gas and by-product royalty

Natural gas and by-product royalty regularly exceeds \$1 billion annually, so the integrity of the systems to control this revenue flow is critical. Beginning with my 1994-95 Annual Report, I have commented each year on problems

related to the Department's natural gas and by-product royalty business, focusing primarily on the development problems related to the MRIS. During 1997-98, MRIS became fully operational and current. As a result, my staff was able to examine in detail the control environment around natural gas and by-product royalty. From that work came the following recommendations and observations.

Natural gas and by-products subsystems' controls

Recommendation No. 21

It is recommended that the Department of Energy strengthen the processes and controls related to its natural gas and by-products subsystems.

*There are separate
subsystems which support
MRIS*

The Department relies on the MRIS to calculate, invoice, and monitor the majority of the natural gas and by-products royalty business. As the overall conclusion related to my next recommendation indicates, controls related to the design, development, implementation, and operation of MRIS itself are sound. My comments here highlight the subsystems which, while not part of MRIS itself, play an important role in the gas royalty business.

*The subsystems handle
important gas royalty
business*

During the course of MRIS design and development, some functionality required in the calculation, invoicing, and monitoring of gas royalty was not incorporated into MRIS itself. These functionalities were addressed through subsystems which do not have the same level of control and security as MRIS itself. These subsystems handle important business components of gas royalty such as unit operating costs, royalty paid banks, and others.

*Stronger controls around
the gas royalty subsystems
are possible*

Audit testing identified opportunities to strengthen the processes and controls related to these subsystems. In particular, management review and approval of detailed work performed by junior staff could be improved. Stronger processes and controls would have assisted management to identify incidents that impacted royalty collection or summary royalty reporting for the 1997-98 fiscal period. As well, greater attention to controls by management may identify situations that need to be addressed before they develop into problems for the Department. Following are examples of our attest audit findings.

UOCR calculation and documentation was deficient

In calculating gas royalty, the Department deducts allowances for compressing, gathering, and processing its royalty share of gas and gas products. The allowance related to operating costs is called the Unit Operating Cost Rate (UOCR). In calculating the UOCR, the Department entered the same data twice for its annual calculation. As well, the rate was not accurately adjusted for the Gross Domestic Product as required by the Department's business rules. These UOCR errors resulted in a \$25 million "over-allowance" to industry; this directly impacted gas royalty collection from industry. The Department intends to recover this over-allowance in the next year. As well, the UOCR files were shredded instead of archived. Should questions arise regarding these UOCR amounts, the Department may need to reconstruct these records.

Royalty Paid Bank calculation was incorrect

In the transition from the pre-1994 business rules to the current gas royalty business rules, the Department established royalty paid banks. These are quantities of gas or gas products on which Crown royalty had been paid prior to 1994 and which had been subsequently stored in underground injection schemes. The Department amortizes these banks over a six year period. At each year end, there is a balance in the royalty paid banks which needs to be disclosed in the financial statements as a future commitment. An error of \$8.6 million was made in the calculation of the Royalty Paid Bank as at March 31, 1998. This error had to be corrected in the financial reporting on the Department, Ministry, and Province's financial statements.

Greater control is needed over spreadsheets

Greater security could be exercised over spreadsheets which contain key gas royalty data and calculations such as UOCRs and royalty paid banks. Unauthorized or accidental changes might be made to formulas and spreadsheets without management's knowledge or consent. Security over these spreadsheets could be strengthened by using cell protection and authorized access controls.

The Department has assured me that it will address these control weaknesses. In 1998-99, I will review the Department's progress in enhancing their gas royalty controls.

**General controls over
information systems**

My examination of controls related to MRIS and the infrastructure which supports it was divided into two components. My staff audited the controls within the MRIS application itself. This includes controls over access to MRIS, as well as input, processing, and rejection controls for the application. I also reviewed the general controls around the Department's computerized infrastructure. This control environment is managed by the Department's Information Systems Branch (ISB). My review included an analysis of the structure of the organization, control over changes to programs, and access to information systems in general.

*Overall, general controls
and MRIS processing
controls were adequate*

In general, I concluded that, for the purpose of reporting on the Ministry's financial statements, controls related to MRIS and its supporting infrastructure were adequate. I am pleased to say that overall ISB demonstrated a dedication to a high level of control and competence in all areas reviewed. This was exhibited in areas of internal control, change control, administration and organization, and in its relationships with clients. Each staff member with whom we held discussions was knowledgeable, co-operative, and open to recommendations for improvement. The management teams were proactive in evaluating and implementing our recommendations as soon as possible. We noted that there were many initiatives underway to improve controls within the department. While controls are generally sound, I was able to make a number of suggestions for improvement, centered on the theme of security.

**Information technology
security controls**

It is recommended that the Department of Energy enhance the security controls related to its information technology and systems.

*Security controls are
important*

My recommendation addresses concerns in the general control environment. The Department is naturally concerned to ensure the integrity of its computerized information for two reasons. First, in the course of routine business, users must be able to rely on the accuracy and availability of the Department's data and processing procedures. Second, issues of privacy and confidentiality of data must be addressed. Security over the computer environment is the foundation on which data security is built. Strengthening security controls within ISB and the Department supports the Department's integrity objectives. I have provided details of a number of my observations below.

*A security policy is needed
for information systems*

The Department should develop a policy that identifies its security objectives with regard to its computerized information and systems. The policy should be approved by senior management and used as a base for designing security procedures. Specific security procedures should then be developed to accomplish the objectives stated in the policy, and these procedures should be consistently applied.

*Responsibility for security
should be designated to an
individual*

The Department should designate an individual who is responsible for security. Currently, system administrators are also responsible for implementing and for monitoring security. This is a concern because administrators are now responsible for reviewing the security aspects of their own work. Designating an individual would also raise the profile of security in the Department.

*Confidential security
information should be
identified*

The Department should identify security-related information that is considered confidential to the organization and ensure that this information is properly protected. Unauthorized disclosure of security information might pose a risk to the Department and its clients. Identifying confidential information would encourage employees to treat it with appropriate care.

*Security auditing
procedures should be
established*

Security auditing procedures, including the logging and timely review of potential security violations on the Department's systems, should be documented and consistently performed. Currently the review of security logs is not consistently performed. Security auditing would allow security administrators to identify potential unauthorized access or unusual activities around their systems.

*Password default settings
need review*

Password default settings should be standardized and improved throughout the infrastructures that support MRIS. At a minimum, passwords should be periodically changed and procedures implemented that make passwords difficult to guess.

Alberta Oil Sands Technology and Research Authority
year ended March 31, 1998**Fund and cash balances**

It is again recommended that Alberta Oil Sands Technology and Research Authority management address its growing fund and cash balances.

This recommendation is repeated from the previous year.

*Fund and cash balances
have grown quickly*

There has been a rapid increase in the Authority's fund and cash balances over the past four years. During this period, the fund balance has risen by \$24,000,000. In each of these years, the Authority's budget called for expenses to equal or exceed revenues. However, in each year, revenues have exceeded expenditures by sizeable amounts. During 1997-98, actual revenues exceeded budgeted amounts by \$1,253,000 and actual expenses fell short of budgeted expenses by \$8,446,000 for continuing operations. In total, for those Authority operations which continue into 1998-99, net revenue generated during 1997-98 exceeded budgeted net revenue by \$9,699,000. The result is a fund balance of \$24,415,000 and a cash balance of \$26,638,000 as at March 31, 1998.

*Current projections may
be optimistic*

My staff has reviewed revenue and expense projections in the Ministry's three year research plan. This plan indicates that the cash and fund balances will be eliminated within three years. However, in my view it is possible that the expenditures envisioned in the research plan may not be required. In the past few years, oil and gas companies have reduced their investment in Authority-sponsored research activity. As well, the recent collapse in petroleum prices will likely have a negative impact on companies' investing in further research. This will likely result in fewer projects being approved. If this is true, then further funding of the Authority from general revenues, now anticipated to be \$8.2 million per year, will further increase the fund and cash balances. As a result, it is not clear if the current balances are required or if these balances will be put to their intended use on a timely basis.

*Impact of new funding
strategies is not clear*

The Energy Research Council created a Research and Technology Development Project to review research in the upstream oil and gas sectors, including heavy oil and oil sands. This Project proposed a new "Industry-Led Consortia (ILC) Model" to develop and approve research projects. The ILC Model proposes consortia as the focus for research and development activity. Industry would strongly influence which projects each consortium would approve. The government would no longer unilaterally approve projects and fund directly, rather it would facilitate research through a variety of funding options. The Council has recommended to the Minister of Energy that the Authority follow the ILC Model. I understand that this new strategy, if approved, would supplement rather than replace the Authority's existing funding approach. While the ILC approach may encourage new types of projects, it is not clear what impact, if any, it will have on the Authority's expenditure targets over the next few years.

*Excess funds should be
returned to general
revenues*

As a result of the changing conditions noted above, it is not clear if the current balances are required or if these balances will be put to their intended use on a timely basis. If the Authority is holding funds which are not required, they should be returned to general revenues.

Other entities

Financial audits of the following were also completed:

Alberta Energy and Utilities Board - year ended
March 31, 1998

Alberta Petroleum Marketing Commission - year ended
December 31, 1997

Guidance to reader

The Ministry comprises the Department of Environmental Protection, the Environmental Protection and Enhancement Fund, the Environmental Protection Revolving Fund, the Natural Resources Conservation Board, the Environmental Appeal Board, and the Alberta Special Waste Management Corporation.

In 1997-98, the revenues of the Ministry were approximately \$180 million and its expenses were about \$300 million. The Ministry is responsible for managing approximately \$1 billion of the Provinces capital assets and employs about 2,275 full time staff to protect, enhance, and ensure the wise use of Alberta's renewable natural resources on a sustainable basis. This includes sustaining Alberta's forests, public lands, fish, wildlife, parks, and the quality of the air, land and water. The Ministry's goals balance the economic development of Alberta's renewable resources with their protection, maintenance, and preservation. This approach to sustainable development aims to promote both a strong economy and the preservation of a clean and healthy environment, today and for future generations.

The Department now delivers its programs through Land and Forest, Natural Resources and Environmental Services

There has been considerable realignment in the Ministry in the past year. In efforts to address its goals more effectively, the Department has reorganized its structure. Three Services - Land and Forest, Natural Resources, and Environmental, now deliver the programs of the Department. The realignment of Services within the Department emphasizes the broad mandate of the Department, which is to manage Alberta's environment. In addition, the Environmental Protection Revolving Fund was discontinued as of March 31, 1998 and the Alberta Special Waste Management Corporation is expected to be wound up in 1998-99. The continuing programs of these two entities will be handled by the Department. A number of operations within the Ministry's entities have also been discontinued, through privatization or delegating the administration of the program to non-government entities called Delegated Administrative Organizations (DAOs).

The business delivery approach has been changed

The Department has also been adjusting its business delivery approach. The work of the Edmonton headquarters will focus on policy and program development, while the six regional and many local offices will focus on enforcement

and service delivery. To ensure strong communication among employees working in this regionalized environment, the Department continues the development of its automated systems and computerized network. To coordinate decision making between other departments, government and private stakeholders, the Department continues to advocate the government-wide Integrated Resource Management approach to sustainable development.

This year, my Report addresses some of the systems and initiatives which enhance the Ministry's ability to do its business and to fulfill its legislative mandate. I have focused on the new automated Timber Production and Revenue System which monitors and controls important aspects of forest management, including the largest revenue source for the Ministry. I also reviewed the Department and government's progress toward incorporating accountability principles, including performance measurement, in its development of Integrated Resource Management. My review follows up a recommendation in last year's Report. Finally, I examined the accountability framework related to the Ministry's six DAOs. These DAOs are independent organizations which operate programs on behalf of the Ministry.

Ministry Financial Statements

In 1996-97, audited financial statements were not prepared for the Ministry and Department of Environmental Protection. As a result, 1997-98 is the first year for which I have issued an Auditor's Report for the Ministry and the Department. Because this is the first year, my Reports cover the years ended March 31, 1998 and 1997. My Auditor's Reports contained several reservations of opinion. As these reservations were repeated for many of the other ministry and department financial statements, I have summarized the reasons for the reservations on page 206. The auditor's reports themselves should be read for full details of the reasons for the reservations.

Department of Environmental Protection
year ended March 31, 1998**Scope of audit work**

In addition to the annual financial audit of the Department of Environmental Protection, the following work was completed:

- Throughout the year, my staff reviewed the implementation and operation of the Department's new Timber Production and Revenue System. This system plays an important role in supporting the Department's timber management business.
- My staff followed up recommendations I made in my last Annual Report with regard to Integrated Resource Management. The Department of Environmental Protection provides many of the resources for this government-wide initiative.
- My staff reviewed the issue of whether the financial results of DAOs should be reported within the Ministry reporting entity. I concurred with management that the six DAOs' financial results should not be reported as part of the Ministry because they are neither owned nor controlled by the Ministry. My staff also reviewed the Department's initiatives to define, monitor, and report the success of its DAOs in delivering services.
- My staff followed up the recommendation from my 1996-97 Annual Report regarding the Environmental Protection and Enhancement Fund. In my report, I recommended that the Fund be examined in order to determine a fund balance appropriate to meet its risk management objectives. I am pleased to report that Treasury Board, in consultation with the Standing Policy Committee on Sustainable Development and Environmental Protection, Treasury Department, and the management of the Fund, have analyzed the Fund's requirements and placed a cap of \$150 million on the Fund's surplus.

- My staff reviewed plans to address the Year 2000 issue with regard to the Department's many automated systems.
- My staff applied specified audit procedures to the Performance Measures which appear in the Ministry of Environmental Protection's Annual Report.

Timber Production and Revenue System (TPRS)

Background

*TPRS supports important
Departmental business*

The Department of Environmental Protection's Land and Forest Service is responsible for the management of Alberta's forests. The responsibility includes issuing timber harvest dispositions such as permits and licences, monitoring production (by both weight and volume) against those dispositions, recording timber sales and inventories, and collecting the Provincial revenues that flow from the harvest. Each year, several thousand dispositions are issued and production from those dispositions generates over \$100 million in revenues for the Province. The forest companies submit production and sales data, as well as Provincial revenues, on a self-assessing basis.

*TPRS was designed to
improve control but is not
up to date in its
processing*

Until May 1997, the Service relied on two systems to monitor and control this responsibility. For revenue collection, the Service used the Forest Revenue System (FRS); weigh scale data from mills was recorded on a separate system. To improve its control over the business outlined above, the Service decided to design, develop, and implement the new Timber Production and Revenue System (TPRS) to replace the existing systems. TPRS was scheduled to be operational on May 1, 1997. Although management knew that TPRS was not fully functional on May 1, 1997, FRS was abandoned and TPRS commissioned. From May 1997 onward, management and staff in the Land and Forest Service have worked to bring TPRS to full functionality. As at July 1998, for the timber year that runs from May 1997 through April 1998, about 70% of the weigh scale data has been successfully entered. For the same timber year, about 50% of revenues have been calculated and verified on TPRS, then reconciled on a payer-by-payer basis to the Corporate Accounting and Reporting System (CARS), the system that records the Department's cash receipts.

**Timber Production and
Revenue System - Status
review and project plan****Recommendation No. 22**

It is recommended that the Department of Environmental Protection review the status of the Timber Production and Revenue System implementation, then prepare and execute a project plan to bring the Timber Production and Revenue System to a current, stable status.

*TPRS was delivered with
operational problems*

As delivered, the Timber Production and Revenue System (TPRS) could handle much of the business defined in the design phase of the software development project. For example, the disposition management component of TPRS worked as planned. As well, producers who submit production data based on volume only and who generate about 10% of the timber revenue for the province, were properly handled by TPRS. However, the system contained many problems which delayed the processing of data. These problems, as well as issues related to business functionality which had not been programmed into TPRS but were essential to accurate processing, had to be fixed before the system could be considered current and stable. In the same time frame, the government's new IMAGIS financial accounting system was under development. IMAGIS has the potential to replace CARS as the accounts receivable system for the Department, although no decision had been made about replacement during this time period. As a result of this uncertainty about the accounts receivable system, no automated interface between TPRS and other revenue systems (whether CARS or IMAGIS) was developed.

*To become current and
functionally stable, TPRS
faces many challenges*

Problems which have been discovered during implementation or operation have been entered on a Priority Listing. Hundreds of problems have been added to the Listing; currently 103 issues remain to be addressed. The Land and Forest Service's Information System service provider has assigned 1.5 full-time equivalent positions to address the issues on the Listing. This level of staffing reflects the Service's view that, since May 1997, TPRS has been in a maintenance mode. However, new issues are continually being identified by Service staff. As well, major changes to the business rules, which in the past have caused delays in performing TPRS business, are expected in the fall of 1998. As these bugs and business changes are identified, the priority of issues on the Listing changes. The Listing is

not organized into releases tied to required business functionality. Given the changing priorities on the Listing, there is no clear view when TPRS will be fully up to date. During our review, we did not see a detailed timetable or plan against which to measure overall progress toward a current, complete system. Documentation of the system and its business rules also needs to be completed to ensure continuity of service.

A Post Implementation Review should be undertaken

TPRS is the delivery platform for important, routine Departmental business. As processing delays and other issues remain to be resolved around TPRS business functionality, I believe that management should take action to ensure that TPRS will support the Department's business in a stable, current environment. In the defined scope of the original TPRS project, there had been a Post Implementation Review planned for this time frame. I am suggesting that the review be undertaken to provide an objective, technical assessment of the status of TPRS. The review should analyze whether the system, as it now operates, delivers the business functionality intended in the original design. Where the review identifies shortcomings, alternative solutions should be considered. In making final decisions about enhancing TPRS performance, management should consider the impact of business rules and user capacity as well as technical flaws in design, implementation, or operation.

A detailed project plan should be created and carried out

The review should give direction for the creation of a new TPRS project plan. The project plan should address all tasks typically found in a systems development project plan, including Corporate Sponsorship, an active Steering Committee, Project Leader and progress reporting. It should also include tasks to bring processing up to date. The project plan should be resourced so that impacts of TPRS development and testing on ongoing Departmental business can be assessed. The project plan needs to consider the delivery of versions of TPRS that both result in a stable, current processing environment for the present business rules and prepare it for known business changes.

Integrated Resource Management

Background

Integrated Resource Management (IRM) is a comprehensive approach to sustainable development and resource

IRM is the government-wide mechanism for comprehensive resource management

management. It recognizes that the use of a resource for one purpose can affect the use and management of other resources. It advocates the integration of the decisions, policies, programs and activities of all parties so that the long-term benefits to society are optimized, and conflicts between competing stakeholders minimized. Businesses such as agriculture, oil and gas, and forest companies, the public, and other levels of government are impacted by resource allocation decisions. IRM recognizes that sustaining Alberta's natural resources and preserving the environment depends on cooperation and coordination amongst the various stakeholders. Details on the progress of IRM through July 1997 are included on pages 99 and 100 of my previous report.

IRM planning and activities have proceeded in the past year

Since that time there has been progress in implementing the IRM approach. A paper entitled "Alberta's Commitment to Sustainable Resource and Environmental Management" has been developed. The Commitment paper outlines the IRM philosophy and general tenets that will form the foundation for the government's sustainable development decision making. An Implementation Plan that will guide the IRM initiative from the Commitment paper's policy level toward the operational level is being developed. A draft of this Plan is expected in the next few months. Regional Environmental Resource Committee (ERCs) have been resourced for all regions in the Province. ERCs are interdepartmental groups which constitute a forum for integrating the management and administration of each region's environment and natural resources, and for enhancing community level service. Within Environmental Protection itself, a cross-governmental legislation and policy review is underway.

Last year's recommendation has not yet been addressed

While I am pleased to see progress in IRM matters over the past year, my recommendation has not yet been specifically actioned. Last year I recommended that the Deputy Minister-level Sustainable Development Coordinating Council incorporate accountability principles, including performance measurement into IRM strategies and plans. At the completion of this year's review of the IRM initiative, I refined the previous year's recommendation with the following.

**Integrated Resource
Management performance
measurement**

*Performance measures
should be identified and
baseline data collected*

*A management group
should be designated*

**Delegated Administrative
Organizations (DAOs)**

*Basic accountability
issues are included in
legislation*

Recommendation No. 23

It is recommended that performance measures be identified to assess the contribution of Integrated Resource Management to the Province's resource management business. It is also recommended that a specific management group be designated responsible for directing, monitoring, and reporting the progress of the IRM initiative in government.

IRM is an approach which will impact routine operational activities in the field. Therefore, IRM's success needs to be measured in terms of the effectiveness and efficiency of resource management decisions and operations. It seems to me that a number of measures may be required to assess this impact in the field. It would be useful to have decided on these measures and gathered data before IRM has a major impact on operations. The initial data will serve as a baseline against which to assess the impact of IRM on routine activities.

The Council directs the IRM initiative at the deputy minister level. There are a number of organizations participating at operational levels, including Environmental Protection and inter-departmental groups. However, there appears to be a gap in the accountability structure between the Council and these operational groups in the field. Consequently, coordination, monitoring, and reporting of IRM activities is lacking. As well, the group which fills this gap would be useful in addressing and resolving operational issues. It is possible that the IRM Director's Working Committee, which drafted the Commitment document may have been intended to fill that gap, but I have not seen evidence to suggest that such a designation of responsibility has taken place. A formal terms of reference for the appropriate group would clarify the accountability structure and ensure that the necessary responsibilities have been allocated.

As I have mentioned, several Ministry responsibilities have been transferred to DAOs. There are now six DAOs whose activities and results need to be monitored by the Ministry. DAOs are non-profit organizations governed by the Societies Act. Each DAO has corporate objectives and by-laws. The legislation that enables these DAOs to transact government programs and to finance these programs by charging fees

also spells out a number of basic accountability principles, such as delivering annual plans, budgets, and reports to the Minister on a timely basis.

Detailed accountability monitoring is not yet in place

The Department has begun to address the accountability issues surrounding DAOs. The Department still needs to define quantifiable goals and measures against which the success of these DAOs can be measured. As well, the Department has yet to formalize the systems and processes to monitor the performance of DAOs. Until such controls are put in place, the Ministry will not know whether the DAOs are achieving the goals set out for them by the Ministry.

The Department is addressing detailed accountability controls

The Department has assembled a project team to address accountability issues related to its DAOs. I am pleased to say that the framework being proposed by the project team covers my essential concerns around accountability and, in my view, will lead to an adequate level of monitoring, reporting, and therefore assurance around the activities of the DAOs. I encourage the Department to continue with its project plan and to develop the detailed controls which will ensure the accountability of its DAOs. I will continue to monitor the progress of the Department's project.

Other entities

Financial audits of the following, for the year ended March 31 1998 were also completed:

Environmental Protection and Enhancement Fund Environmental Protection Revolving Fund (on

March 31, 1998, the entity ceased operations and transferred all assets and liabilities to the Department of Environmental Protection)

Natural Resources Conservation Board Alberta Special Waste Management Corporation

Guidance to reader

The mission of the Ministry of Family and Social Services is to help families be responsible, help adults be independent and to keep children safe.

The Department's major strategies focus on redesigning its key management structures and processes, giving communities greater input into programs and services and working closely with other ministries. This has been reflected in the development of community based delivery systems for services for children, and persons with disabilities, and redesigning benefits for those not expected to work. Increasingly, audit effort has been directed at the accountability issues of new boards and authorities related to services for children and persons with disabilities.

Supports for Independence

For the year ended March 31, 1998 the Department spent \$337 million on this program. The program is designed to help individuals be independent through providing basic levels of support to people unable to provide for their own basic needs.

Services to Children and Families

The Minister responsible for Children's Services and the Office of the Commissioner for Services for Children and Families were responsible for designing a new approach to delivering services to children and families on a community basis. The change in delivery approach has resulted in the creation of eighteen Child and Family Services Authorities. Boards have been appointed for all eighteen regions. One of the Authorities commenced operations on April 1, 1998 and the remaining 17 are expected to commence operations on April 1, 1999. The Commissioner's Office ceased operations on April 1, 1998 and the transition is being managed by the Department of Family and Social Services in conjunction with the new boards.

The new service delivery approach focuses on four key areas of change: community-based service, early intervention, improved services to Aboriginal people, and integration of health, justice, education and child welfare services. For the year ended March 31, 1998 the Ministry spent \$28 million

(1997 \$23 million) in respect of the new approach to services for children and families, including Early Intervention Programs.

The core business of Children's Services is to keep children safe. To deliver this core business, the following services will be transferred to the eighteen regional authorities:

- Child Welfare that makes sure children in Alberta have their survival, security, and development protected according to the Child Welfare Act. Child Welfare includes Handicapped Children's Services. Total spending for the year ended March 31, 1998 was \$274 million (1997 \$235 million).
- Day Care Programs that are responsible for delivery as well as program, policy and procedures development for the various Provincial child care programs. Total spending for these programs for the year ended March 31, 1998 was \$60 million (1997 \$62 million).
- Family Mediation and Court Services that assist separated parents to deal with the issues of child custody and access in a non-adversarial manner. If issues are not resolved through mediation, services are provided to assist the applicant to take court action. Total spending was \$1 million for the year ended March 31, 1998 (1997 \$1 million).
- Office for the Prevention of Family Violence that implements women's shelters standards and policies, tracks the use of women's shelter services, distributes educational material and provides training to government staff and the community on family violence. Total spending was \$9 million for the year ended March 31, 1998 (1997 \$8 million).

The transfer of services to the new authorities represents a significant change in the governance and accountability of child and family services that presents both opportunities and risks. The Minister of Family and Social Services will continue to be responsible for the safety of children in the Province. Consequently, the Minister must still satisfy himself that the services delivered by the regional authorities continue to meet Provincial standards. During the period of

transition, this is particularly critical as many aspects of delivery, such as the roles and responsibilities of the various stakeholders will not be fully determined.

My staff undertook a review of the systems used by the Department to approve service and business plans submitted by Child and Family Service Authorities.

Services to Persons with Disabilities

In 1997, the Legislative Assembly passed the Community Governance Persons with Disabilities Act leading to the creation of six regional boards, a Provincial Board and a facility board, all of which will be operational in 1998-99. The purpose of the new boards is to give communities more opportunities to plan and deliver services that meet local needs. My staff and I have met with representatives of these new organizations to discuss governance issues. During 1998-99 these organizations will be implementing business plans prepared by staff of the Department. As the need for performance measurement will continue, my staff reviewed existing monitoring systems for the Individual Funding Program for Persons with Developmental Disabilities.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Family and Social Services for the year ended March 31, 1998. My auditor's reports contained reservations of opinion and should be read for full details of the reasons for the reservations. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- A review of how the Department can reduce compliance errors relating to Supports for Independence case files.
- An examination of the systems used by the Department to approve business plans submitted by Child and Family Services Authorities.

- An examination of the monitoring systems for the Individual Funding Program for Persons with Developmental Disabilities (PDD).

Services to Children and Families - Accountability

The Minister uses business plans to hold CFSAs accountable

The Department should only approve business plans that will achieve effective accountability

Recommendation No. 24

It is recommended that the Department of Family and Social Services require Child and Family Services Authorities to submit business plans that will achieve effective accountability.

The Minister of Family and Social Services is responsible for services to children and families, but authority for delivering these services is now delegated to the Child and Family Services Authorities (CFSAs). For the Minister to satisfy himself that his responsibilities under the Government Accountability Act are discharged by the CFSAs, an appropriate accountability framework should be in place. An accountability framework includes the preparation of a plan, execution of the plan, and measuring and reporting actual results relative to the plan. Business plans should include a transition plan, timelines, expected results and outcomes, so that the Minister can hold the CFSAs responsible for their performance.

The only business plan submitted to and approved by the Department to date does not include a budget or performance measures. Further, the business plan does not provide the necessary information to be able to determine if goals have been achieved, as it does not outline the expected results and outcomes. Business plans received in the future should be reviewed more stringently and only approved when they contain the necessary components to achieve effective accountability. The Department's requirement for business plans should be clearly communicated to the CFSAs.

Business Planning Process

It is recommended the Department of Family and Social Services provide Child and Family Services Authorities with all the information the Authorities' Boards require to approve their business plans and budgets in a timely manner.

CFSAs did not receive information from the Department on a timely basis

In order for Child and Family Services Authorities (CFSAs) boards to complete their business plans and approve their budgets in a timely manner, CFSAs need to know their funding allocation, as well as the Provincial performance measures that they are required to report to the Department. The Department has prepared a Business Planning Handbook to provide the CFSAs with guidance on the preparation of business plans. However, the Handbook is incomplete because Provincial performance measures have not yet been established by the Department. Furthermore, final information on the funding allocation for each region was not communicated in a timely fashion. Boards should not be expected to approve a budget without such key information. Certain decisions regarding the transfer of staff to CFSAs have also not been communicated.

**Services to Persons with Disabilities -
Appropriateness of
performance measures**

Recommendation No. 25

It is recommended that the Department of Family and Social Services establish appropriate performance measures for reporting the accomplishments of the Persons with Developmental Disabilities program.

Performance measures would be improved if they measured the main areas of support

Through the Individual Program Fund the Department provides assistance to individuals with disabilities amounting to \$83 million. The funds are provided to help individuals have an improved quality of life through four areas of support: funds to support individuals in community life, employment training, contributing and participating in regular community relationships and unique supports as required. Current performance measures would be improved if they measured the success of funding to these different areas.

For example, the objective of employment support funding is to train adults with disabilities, and help them access employment.

Employment support may continue without and useful change

The Department does not track the success of disabled adults in obtaining employment. Funding for employment support may continue for several years for certain individuals without any significant improvement in their employment potential. Improved monitoring of employment support would allow management to redirect resources to areas of the program where beneficial impacts are being made. I understand that the Persons with Disabilities Provincial Board is now dealing with the above concerns.

Services to Persons with Disabilities - Monitoring activities of program

It is recommended that the Department of Family and Social Services provide training to guardians of persons with disabilities that will help the guardians monitor the quality of services provided to persons with disabilities.

The Department, the service provider who is often an agency, the client and the client guardian are usually all involved in reaching agreement on the provision of services to persons with disabilities. Together they produce an individual service plan for the client. There are both ongoing and annual reviews of the service plan.

The annual review process would be improved if there was evidence was gathered to demonstrate that the guardian was satisfied with the four basic areas of support and goals outlined in the individual service plans.

Training is needed by guardians to enable them to monitor the quality of the service given

The ongoing monitoring of the service provider's quality of care would be improved if appropriate training and guidance were developed and provided to guardians. Some of the criteria being used in the Quality of Life standards being field tested by the Department may be useful in this regard.

Contract tendering policy

In my 1997 annual report (page 111), I recommended that tendering policy and procedures for major contracts be improved.

I am pleased to say that the Department has addressed my concern in this area with the implementation of amendments to the tendering policy of the Department.

Other entities

A financial audit of **Persons with Developmental Disabilities Foundation** for the five month period ended March 31, 1998 was also completed.

Guidance to reader

The vision expressed by the government for the health system is “*healthy Albertans in a healthy Alberta*”. This incorporates the idea of providing services for those who are ill, and promoting and protecting the health of individuals who are well. The mission of Alberta Health (the Ministry) is to improve the health of Albertans and the quality of the health system.

Restructuring and reform of the health system began about five years ago. The intent was to place greater emphasis on prevention of illness and promotion of wellness, leading to greater community and personal responsibility for health and the integration of health services.

Restructuring of the health system involved the elimination of organizations and the creation of new ones. In addition to the Department of Health, there are seventeen regional health authorities and two Provincial health boards. Restructuring meant redefining responsibilities and building systems to govern and manage health authorities while the Department of Health underwent significant re-organization and staff reduction.

The expenditure history of the Department of Health is as follows (unadjusted for inflation):

1992-93	\$4.2 billion
1993-94	\$4.0 billion
1994-95	\$3.9 billion
1995-96	\$3.7 billion
1996-97	\$3.8 billion
1997-98	\$4.2 billion

For the year ending March 1999, the government expects the Provincial health spending budget to increase to \$4.3 billion. About 64% of this will go to regional health authorities and Provincial health boards, 20% to fee-for-service health practitioners, and 16% for various Provincial programs.

The decentralized and complex structure of the health system challenges the Department of Health to orchestrate many stakeholders in the achievement of goals and improvement of the health system. Central direction and leadership are required in balance with self-managed health authorities.

Health authorities are accountable for the delivery of health services in response to the health needs of each region and to follow the direction of the Minister of Health. Multi-stakeholder committees and working groups are commonly used as a means for dealing with issues and making decisions.

In this environment, the achievement of goals and strategies requires efficient and effective business planning and the communication of relevant performance information. The cost-effective delivery of health services requires an efficient division of responsibilities among entities and clear accountability for results achieved.

Accountability is of central importance to the health system of Alberta. Accountability is about the setting of expectations, measuring results and costs, and taking action to improve results. It is key to achieving cost-effective use of resources and dealing with increasing demand for services.

There are many important accountability issues at hand. These include finalizing the accountability of the various entities who function in the health system, implementation of a Board governance reporting system, improved business planning, advancing the reporting of performance, and improving systems for paying physicians.

The result of audit work continues to show that information and risk management are key to maintaining an accountable health system

Overall, the result of audit work continues to show that information and risk management are key to maintaining an accountable health system. The following main points are aimed at achieving more cost-effective health services:

- Business plans need to be in place in a timely manner.
- Improvements to systems are required for allocating funds to regional health authorities and to better anticipate the funding required to meet health service demands.
- A framework is needed for managing human resources in the health system. Information to plan the health work force is missing.

- Greater emphasis should be given to accounting for the quality of health services, in particular the measurement of service outputs and patient outcomes.
- Progress has been made on the development of a health information strategy for Alberta. However, management processes should ensure that a Province-wide information network (*we//net*) will deliver beneficial results at an affordable cost.
- A process is needed to report the progress of health authorities in removing the Year 2000 risk that is embedded in equipment and systems.
- A new agreement with physicians lays a foundation for dealing with concerns reported last year with regard to physician funding and fee-for-service rates. Performance under the agreement should be monitored by the Department of Health to ensure that the agreement is working as expected. Action is also required to improve systems for paying health practitioners and reducing the risk of incorrect payments for health services.
- Improvements in financial reporting can be made through consolidated reporting of regional health authorities and better use of financial analysis in the annual reports of health authorities.

Department of Health year ended March 31, 1998

Scope of audit work

In addition to the financial audit of ministry financial statements, the following systems work was completed for the purpose of assessing whether:

- business planning is an effective system for setting strategic direction, guiding the delivery of health services, and rendering accountability for results achieved with the use of financial, physical, and human resources;

- population-based funding is being developed and used in a manner consistent with its purpose and capital asset planning is being carried out in an appropriate manner;
- measurements of the quality of health services are being reported; and
- progress is being made on meeting the information needs of stakeholders in the health system and whether risks to a proposed province-wide information network (we//net) have been identified, and adequate steps have been taken to manage those risks.

Follow-up work was conducted with respect to recommendations made to the Department of Health in prior years. Focus was placed on the progress being made on the development of information systems, management of the Year 2000 risk, and improvements to physician funding and payment systems.

Work was also done to summarize the results of health authority financial audits for the fiscal year ended March 31, 1997.

Business planning for health

The Government Accountability Act requires the preparation of two key accountability documents - Ministry Business Plans and Ministry Annual Reports. The Act stipulates that accountable organizations, which include regional health authorities and Provincial health boards, are to submit business plans and annual reports to the Minister of Health.

Business plans are an important part of accountability since they establish what is expected to be done by the Department of Health and health authorities over a period of three years. An entity sets out what it is going to do, does what it agreed to do, after which there should be an accounting of what was done in relation to what was expected.

The implementation of a business planning process is a significant accomplishment

Business planning involving health authorities began three years ago. The implementation of a business planning process engaging the Department of Health and all health authorities is a significant accomplishment.

The latest business plan of Alberta Health outlines actions to be taken over the next three years that should improve health system planning. The ongoing development of business planning by the Department of Health is also shown in the latest requirements for the 1998 business plans of health authorities. For example, health authorities are now required to give the Department information on assumptions and risks underlying their business plans as submitted for approval by the Minister of Health. Since this was the first year for this requirement, there was considerable variation in the information provided by health authorities. The Department intends to issue guidelines later in 1998 to assist health authorities in the identification of risks and assumptions as part of business planning.

Certain other initiatives were introduced by the Department of Health. In January 1998 the Department formed a group, with health authority representation, to undertake “a comprehensive review of the health authority business plan and annual report requirements, revise the framework, and identify adjustments to improve alignment of Ministry and health authority planning processes”. The work of this group is in progress.

The focus for this audit was to assess the business planning process for the health system. A common set of criteria was used in carrying out this work. The audit found that business planning is an evolving process and health authorities are at various points in developing their planning capabilities. There are strengths in the system but with opportunity for making improvements.

Among the strengths of the business planning process are a predetermined schedule for completing business plans, communication of requirements for health authorities to follow and a set of performance information to help them prepare business plans and annual reports, procedures to centrally review the business plans of health authorities, and a willingness on the part of the Department of Health and health authorities to study health needs, to seek input from stakeholders, and to improve systems and practices.

Timeliness of business plans

Recommendation No. 26

It is recommended that the Department of Health and health authorities implement a joint strategy for improving the timeliness of business plans.

Business plans and budgets were not finalized and approved

Current business plans and budgets of 13 health authorities were not finalized and approved by the Minister of Health as of August 1998 even though almost half the business year is over. Consequently, the value of business plans is diminished as instruments of control and accountability. Delay in the completion of authorized business plans is due to the time taken to prepare the Departmental business plan followed by health authority business planning, revised funding decisions, and budget forecasts by health authorities that the Department of Health is now analyzing.

Ways of improving the timeliness of business plans include having health authorities conduct their strategic planning and budget forecasting in parallel with the development of the business plan of the Department of Health. Preliminary plans of health authorities could be shared with the Department of Health earlier in the process to help the Department prepare the business plan and budget for the health system as a whole.

Sections of this Report that follow contain additional observations and recommendations that will help advance business planning as a key system for achieving accountability in a restructured health system.

Funding systems

Of the \$2.6 billion provided by the Department of Health to regional health authorities (RHAs) in 1997-98, approximately \$1.96 billion (approximately 75%) was distributed through the population-based funding formula. In addition, RHAs received approximately \$228 million for other services including laboratory, community rehabilitation, private clinics and hiring additional front-line staff. The Capital and Calgary RHAs also shared approximately \$183 million for Province-wide services they provide to the residents of all regions. These services are typically high cost procedures such as organ transplants and advanced drug therapies.

*The Department
implemented a new
population-based formula
to allocate funds*

Alberta Health decided that a change in the RHA funding model was necessary to facilitate new health care initiatives, to provide greater equity between regions, and to increase incentives to improve cost-effectiveness. In November 1995, a committee comprised of health care experts and representatives of the Department and the RHAs, recommended the Province adopt a population-based funding approach.

In 1997-98, the Department implemented a new population-based formula to allocate funds on the basis of population adjusted for age, gender and socioeconomic status. This recognizes that different demographic groups affect health care needs and costs. For example, people in younger age groups incur significantly lower health costs per capita on average compared to people over the age of 65. The population is divided into twenty age categories, further divided by gender and by four socioeconomic groups. In total, 124 demographic groups are used to define the Alberta population.

It is important to recognize that the total population-based funding available is a policy decision of the government. The formula only distributes this funding. It is not a model designed to determine the total amount of funding required. Health needs of a region are to be assessed by each RHA and factored into their business planning. The funds allocated to each RHA are not determined by the business plans, but RHAs are expected to adjust their business plans, as necessary, in response to funds provided to them.

According to the Department of Health, the goal of the formula is to achieve "equity" in the distribution of funds to the RHAs. The intent is to allocate funds in a neutral and unbiased manner. It does this by providing equal funding to each region for every Albertan in a given demographic group living in that region. These per capita rates are adjusted to recognize the additional costs of servicing remote communities and assuring access to services in areas where the population is dispersed. The formula also has import/export adjustments to transfer funds between regions when residents receive services in another region.

Funding is allocated to demographic groups based on utilization data obtained from the health care facilities and payments to physicians. Relative weights, representing the health care resources used by each patient, are assigned to all reported services. Total funding is divided by the relative weights to determine the funding for each demographic group. The funding to each RHA is the sum of the per capita funding for each demographic group multiplied by the number of individuals in that group living in the region.

- The funding that is allocated to an RHA is not determined by the actual costs incurred by that RHA. The population-based formula works by using historical utilization and costs for the Province as a whole. By basing funding on Provincial averages for utilization and costs, the formula encourages regions which use more or cost more than the average to use less or spend less. Conversely, the formula may allow regions which use less or cost less to use more or spend more, which may be appropriate if services have been under-provided. Therefore, it can be said that the population-based formula implicitly provides the incentive for RHAs to become more cost-effective.

My Office examined the goals of the funding model in relation to the goals of the Department, the mechanics of the funding allocations, the health care utilization and financial information on which the allocations are based, the relationship between funding and amounts actually expended by the RHAs, and the extent of the Department's efforts to understand and improve the information used in the funding process.

Improvements are required to bring greater stability and certainty to the funding of health services

The audit indicates that improvements are required to bring greater stability and certainty to the funding of health services in Alberta. The successful implementation of the population-based funding formula depends on more complete, accurate and timely information on population, utilization of health services and health service costs.

Population-based funding**Recommendation No. 27**

It is recommended that the Department of Health:

- **improve the quality and timeliness of the information used in the population-based funding formula;**
- **improve the consistency and predictability of the formula;**
- **analyze reasons for utilization and cost differences between regions;**
- **review the continuing application of the no-loss provision, and**
- **develop better methods of forecasting funding requirements.**

The Department has undertaken a major initiative and done a commendable job in gathering the population, utilization and financial information necessary to begin implementing the funding formula. A committee with representation from the Department and the RHAs has been formed to identify and resolve concerns. While progress has been made, much remains to be done. The following issues are critical to the success of the formula.

Quality and timeliness of information

The population-based funding formula begins its calculations by assigning dollar amounts to the following service areas, or “pools”:

- acute inpatient care;
- emergency care;
- day surgery procedures,
- hospital clinics;
- home care;
- long-term or continuing care; and
- health promotion, injury prevention and disease protection programs.

Health authorities are not required to spend money in the same proportions as the funds are allocated to them for each of the major service areas in the funding model. For example, an RHA is not required to spend its acute care funding on acute care. Notwithstanding this flexibility, it is critical that the amount allocated to each of the above service areas (“pools”) reflect actual expenses to ensure funding matches the services to be provided. If it does not, there is

The quality of reported data for the purpose of formula funding is poor

the risk that an RHA will not receive funding that reflects the costs of providing service to its residents.

“Pool” sizes are based on the distribution of historical expenses of the RHAs as reported through the Management Information System (MIS), a national system which RHAs are required to follow. However, the quality of reported MIS data for the purpose of formula funding is poor. It is noted that eight RHAs, with estimated combined expenses of approximately \$300 million, had not submitted MIS information thus rendering pool data incomplete. For the first year of formula funding (1997-98), approximately \$42 million in reported expenses were not allocated to pools because of uncoded transactions (\$7 million with respect to funding calculations for 1998-99). The formula is also missing the benefit of data on community rehabilitation services, laboratory services, and health promotion and prevention. Subjective adjustments between pools of more than \$500 million were considered necessary to determine final pool sizes for the 1998-99 fiscal year.

The Department needs to obtain financial information which permits meaningful comparison of actual costs with funding provided for each service area. This might be done through enhanced MIS reporting, financial statements, or other means. Costs relating to programs funded separately should be excluded, so that pool sizes can be better linked to actual funded costs.

The population data used in the 1998-99 funding allocations consists of Alberta Health Care registrants at March 31, 1997. This time lag has a negative impact on a region experiencing significant growth, since funding does not match the population it currently serves. For example, some regions experienced growth as high as 4% from March 31, 1996 to March 31, 1997. Utilization and cost data used in the 1998-99 funding is also drawn from the 1996-97 fiscal year.

Funding is slow to react to population and utilization changes

As a result, funding is slow to react to population and utilization changes, possibly impeding changes in service delivery. The Department may wish to address this concern by using population and service activity forecasts, with adjustment being made when actual results differ significantly from the forecast.

The 1998-99 funding allocations also excluded some 4,300 acute care and 2,800 home care treatments, representing a cost of approximately \$12 million and \$23 million respectively, because the Department did not know the patient's registration number. While the overall effect of this may not be significant, such occurrences will cause further distortions in funding for those regions that may have a disproportionate number of these individuals.

The cumulative effect of data problems is difficult to predict. For example, population growth in one region will not automatically entitle that region to additional funding. Since the total funding is capped, the growth or decline in population of all regions would have to be taken into account. A region would receive more funding only if its growth was greater than the provincial average growth.

Consistency and predictability

The per capita funding rates for the various demographic groups changed from 1997-98 to 1998-99. In many cases these changes were significant. For example, in 45 of the 124 demographic groups, the per capita rates changed by more than 20% in one year. Changes of this magnitude make it difficult for RHAs to predict with any certainty how much funding they will receive.

The changes in per capita rates occurred for several reasons, including changes in the formula and changes in the underlying data. First, the relative size of the funding pools changed significantly from 1997-98 to 1998-99 because more information was available. Second, the formula was improved by shifting from New York-based resource weights to Provincial Costing Project resource weights for acute care. Third, the utilization by some demographic groups changed.

Utilization and cost differences

The Department needs to understand the reasons for differences in utilization and costs between regions. For example, within selected demographic groups, we found that residents of some regions consumed less than half the provincial average for acute care services, while some consumed more than double. The reported cost per relative weight for acute and long-term care services varied by more than 75% between regions. Regional cost differences ranged from 235% for emergency and day procedures to more than 600% for hospital clinics.

Analysis of utilization by region, community, and facility may help to identify environmental factors or service patterns that require attention

Analysis of utilization by region, community, and facility, over time, may help to identify environmental factors or service delivery patterns that require attention. High utilization may indicate certain health risks or the need for prevention and health education. High costs may indicate excess capacity or the need for more efficient treatment methods. It is also important to understand the factors which lead to lower utilization or lower costs, so that successful programs or treatment methods can be applied elsewhere.

No-loss provision

Final budget allocations to RHAs were not the result of the population-based funding formula. The funding allocated to each health authority by the formula was adjusted so that all RHAs received a revenue increase in 1997-98 and 1998-99. This “no-loss provision” adjustment was used to shelter certain health authorities which otherwise would have suffered a funding decrease under the formula. The adjustment did not result in an increase in total funding, since funding was deducted from regions which would have received more under the formula to provide the funding to those which would have received less.

All RHAs are affected by the “no-loss provision”. Increases or decreases to individual budget allocations ranged from less than \$1 million to over \$13 million. In both years, for example, one rural RHA gained more than \$11 million under the provision. In 1997-98, approximately \$26 million (\$30 million for 1998-99) was redistributed in total among RHAs through the “no-loss provision”. To offset about 74% of the impact on each of seven RHAs that would have lost funding under the “no-loss provision”, the government provided an additional \$22 million in funding to them for 1998-99.

The “no-loss provision” assisted RHAs in the transition to population-based funding, but in so doing, the equity objective is compromised

The “no-loss” provision was intended to assist RHAs in the transition to population-based funding. However, in so doing, the equity objective of population-based funding is compromised. The “no-loss” provision also reduces the incentive for health authorities to improve their cost-effectiveness.

A plan to deal with the “no-loss” provision should be established and communicated to health authorities. It is also important for RHAs to consider the impact that removal of the “no-loss” provision will have on the delivery of services and to plan the necessary adjustments.

Forecasting funding requirements

Population-based funding is not designed to establish the overall funding required for the health system. It is based on historical data and is not used to forecast funding requirements for a growing and aging population, changes in technology, or the impacts of changes in disease patterns.

There is undeveloped potential for forecasting funding requirements and allocating funds based on the projected health determinants of each health region. For example, standard or normal per capita rates could be established for all demographic groups, adjusted over time to account for changes in prices, technology and health care needs. These rates could be multiplied by the projected population to provide an estimate of funding required to maintain or grow service levels.

In April 1998, the Minister of Health formed a special committee (Health System Funding Review Committee) to advise the government on better methods of determining health system funding. I support the work of the Committee and look forward to reviewing its recommendations.

Establishing an appropriate capital infrastructure

Recommendation No. 28

It is recommended that the Department of Health provide guidance for establishing an appropriate and equitable building and equipment base for each regional health authority. It is further recommended that the Department work with regional health authorities to improve systems for planning and funding capital assets.

The equity which the population-based funding model seeks to achieve assumes that health care services can be provided at essentially the equivalent cost in all regions, irrespective of the current capital infrastructure of each region. It is not designed to consider the existing financial condition of each RHA, including differences in the capacity, location and age of buildings and equipment. Over time, the model may be capable of providing inter-regional equity as all regions

move toward optimal utilization, infrastructure and treatment methods. However, current differences between regions can create substantial inequities in the short term as regions attempt to deal with inherited infrastructure and historical patterns of service delivery which may not be cost-effective.

The Department and health authorities should work together and determine the capital base and service capacity of each RHA

The Department and health authorities should work together and determine the capital base and service capacity of each RHA with a view to the delivery of cost-effective services. In some cases, it may be appropriate to establish new facilities or programs. In other cases, it may be cost-effective to close or convert existing facilities. Since the opening or closing of health facilities and programs may have broader social and economic consequences, the Department should clarify who is responsible to make such decisions and work with RHAs to produce information on the costs and benefits of specific cases that would support decision making and accountability.

The Department of Health and the Department of Public Works, Supply and Services are jointly responsible for funding RHA infrastructure, including land and buildings. The RHAs are responsible for replacing, upgrading and/or increasing their capital equipment. However, since the population-based model implicitly funds equipment on the basis of historical amortization, it cannot be assumed that RHAs are obtaining sufficient capital funding to deal with rising prices, the costs of new technology, and the need for expanded capacity to serve a growing and aging population. And, if there is over capacity and unused equipment, population-based funding may not help to restore these inefficiencies.

There is a risk that sufficient funds will not be accumulated for capital purchases

Our examination revealed that the RHAs generally do not include equipment amortization in determining a “balanced budget”. This may result in funds implicitly provided for equipment through formula funding being spent on other operating costs. As a result, there is a risk that the RHAs will not accumulate sufficient funds for capital purchases.

In total, RHA equipment was 71% amortized at March 31, 1998, indicating equipment has an average remaining life of approximately 4 years. Health authorities indicate by their analysis that approximately \$90 million per annum is required on average to fund capital equipment requirements. It is unclear if this is what is required in relation to service needs, and how this amount relates to what has been spent or to the budget increases already provided in the last business planning cycle. Six RHAs, representing a significant portion of equipment holdings, have not submitted a capital equipment plan to the Department as part of their 1998-99 three year business plans.

Postponing equipment acquisitions can relieve cash flow in the short term, but may increase operating costs in the long term. Operating with equipment which is nearing the end of its service life also increases the risk that service quality may be compromised and/or higher maintenance costs may be incurred. Where purchases exceed available funds, RHA debt and related interest costs will increase, or demands for more money from the Province will be made to avoid cutting services.

Capital asset planning is required to determine funding requirements and to determine whether health authorities have a balanced budget. A clear picture of future funding requirements for buildings and equipment is not in place to show how much money will come from where in order to meet infrastructure requirements across the health system.

Since RHAs are expected to finance all equipment acquisitions, mechanisms are needed to ensure this expectation is met. Guidance could be provided by the Department of Health on alternatives such as setting reserve targets. Funding for capital assets should also consider the ability of each RHA to raise funds from other sources, such as investment income and contributions or donations received from health foundations and others, since the RHAs are not equal in this respect.

**Managing the health work
force**

It is recommended that the Department of Health, in cooperation with health authorities, develop a framework for managing human resources and ensure that appropriate information is in place to support the management of the health work force.

A framework (policy, responsibilities, standards, strategies, monitoring and reporting) is needed for managing human resources as an integral part of achieving business goals and strategies. The Department of Health and health authorities lack the information necessary for managing the health work force which operates at a cost of about \$2.4 billion.

The Department has begun to work on developing a strategy for managing human resources

Absence of a framework is recognized by the Department of Health and the Provincial Health Authorities of Alberta. In February 1998, the Department published a paper to begin discussion of the issue. Since health authorities have the authority and responsibility for making staffing decisions, the Department has begun to work on developing a strategy for managing human resources in consultation with health authorities.

Expectations for the Department of Health in planning the health work force need to be clarified

Expectations for the Department of Health in planning the health work force need to be clarified in relation to the management responsibilities of health authorities. For example, it is not clear who is accountable for knowing, on a system-wide basis, how many people are employed, where they are, and what they are doing. The Department does not collect the information.

Absence of information increases the risk that human resources will be under or over supplied

As part of business planning and in support of labor relations, the Department of Health and health authorities should know how many health workers are currently in the health system and what they are doing so that human resources can be better planned. While the Provincial Health Authorities of Alberta centrally collects certain information from health authorities for purpose of supporting collective bargaining activities with unions, the information is not intended for managing human resources. Information for managing human resources would include the skill, age, experience and the cost-effective deployment of health care workers.

Collectively, for example, it is unknown how many nurses and of what skill level will be needed next year and five years from now, and whether sufficient numbers of nurses are studying and graduating to meet present and future service demands in Alberta. Absence of such information increases the business risk that human resources will be under or over supplied or not allocated in a cost-effective manner.

As part of business planning and in support of labour relations, it would also be important for the Department and health authorities to know if there is an appropriate match between the level of care required and the number and level of skills deployed to meet those requirements and to manage risks of not meeting service volumes and standards. More precise service standards and benchmarks would be needed to plan and allocate human and other resources in a more cost-effective manner.

The benefits of establishing a management framework would include clarification of responsibilities, specification of human resource management standards, definition of strategic goals, the information required to manage human resources; and the maintaining of appropriate levels of service and associated human resource costs.

Performance measurement and reporting

Recommendation No. 29

It is recommended that the Department of Health and health authorities implement a plan to improve performance measurement and reporting.

Performance measurement is necessary to ensure that money spent on health care is producing expected results and to support fact based decision making. Progress has been made in advancing performance measurement. However, measurements of health outcomes, outputs and costs are missing or incomplete in annual reports and in the planning and control of regional operations. And, as reported in previous years, cost and output measurements still need to be better linked.

The Department started work in 1998 to develop an expectations and measures framework

The Department of Health started work in 1998 to develop an expectations and measures framework in consultation with stakeholders and to establish a database of health information and consistent methodologies for measuring health results. The goal is to come to a collective understanding of expectations across the health system, to identify priority areas for performance measurement, and then to develop the appropriate key measurements.

Given recent steps being taken by the Department of Health and the above mentioned issues, we focussed on what needs to be done next and on where measuring performance might make the biggest difference in achieving accountability of the Department and regional health authorities.

Measures currently reported include little on the cost and quality of services

The process is at the point where respective roles and responsibilities for defining expectations and service standards must be established. This should provide a more complete basis for measuring performance and rendering accountability for results achieved. While business plans contain an expectation of the delivery of quality health services, measures currently being reported include little regarding the cost and quality of services delivered to people.

The need to be met at the end of the present consultation process is the implementation of a plan that will improve performance measurement and reporting based on what is most important to report to whom, and when. This means defining levels of reporting based on accountability relationships and what is expected to be achieved.

The Department and health authorities will have to agree on what is most relevant to measure

Since there are hundreds of possible measurements and indicators available from many different sources, the Department and health authorities will have to agree on what is most relevant to measure in relation to goals and strategies set out in business plans and other requirements. If, for example, greater emphasis is to be given to providing health services outside of hospitals and to reduce the demand on acute care services, then measures to influence that change may be important regardless of how much money is presently spent on illness prevention.

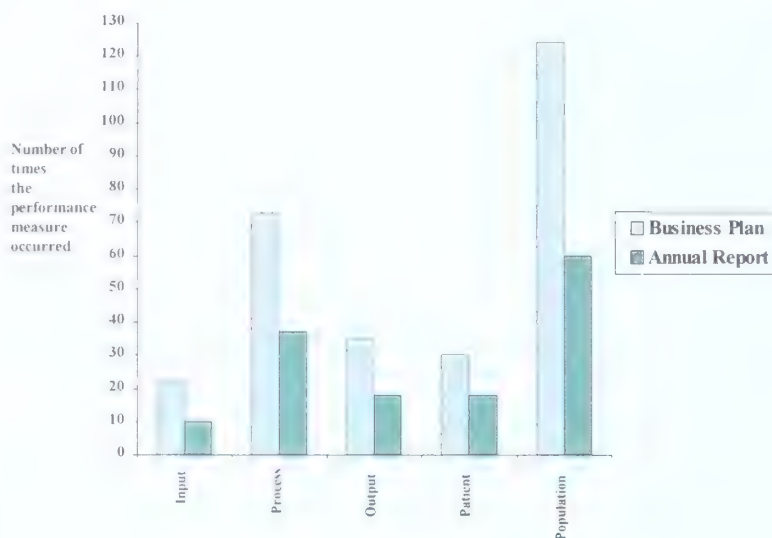
In sorting out what is important to measure, thought will have to be given to who is responsible for measuring and reporting the expectations contained in legislation and collective agreements. Where service standards are specified (such as all operating rooms must have a qualified emergency nurse, or a minimum number of hours per day of nursing care per patient in a nursing home), the Department should provide guidance on reporting information to show that such standards are being met. We were unable to detect performance indicators or measurements being reported for purpose of showing decision makers whether such standards are being met.

Then, there is the problem of completeness and timeliness of data. Where certain performance targets are set (e.g. average length of stay in acute care, average days stay, discharge rates) actual measurements are often two or more years old. It's possible that such processing targets are being over or under reached but by the time decision makers know, it's too late. If such measurements are considered important, then timeliness should be improved.

In terms of what should be measured and reported, we identified a set of possible performance measurements and organized them into five different types. My staff then analyzed the extent to which business plans and annual reports of the Department of Health and health authorities contained each type of measurement or indicator (see chart covering the Department of Health and 11 health authorities that represent more than 80% of regional expenditures).

Performance Measures Included in Business Plans and Annual Reports

source: Analysis of 96/97 Business Plans and Annual Reports of 11 Regional Health Authorities and Alberta Health



Definitions and Examples :

- **Input** : Resources Consumed or Used (eg. Percent change in expenditure on community and home services relative to previous year)
- **Process** : Activities that reflect the demand for program or service (eg. Acute care average length of stay and number of patient separations).
- **Output** : Goods or Services produced (eg. Percent of women aged 50 or over who have mammogram in previous 2 years.)
- **Patient** : Outcomes which are a result of a treatment provided to an individual (eg. quality of care personally received.
- **Population**: Population health status or characteristics of a population (eg. life expectancy at birth.)

Few measurements are produced as expectations and results relating to the quality of services delivered in caring for people. Much more is produced about process than about the actual outputs and patient outcomes resulting from provider care and what health institutions do.

Typically, performance information relating to the care of people is not visible. For example:

- **Input** measurements such as nursing care hours per patient, proportion of qualified staff to acuity of care required, and the ratio of professional to support staff.
- **Process** measurements such as the relationship between the number of people waiting for surgery and the number of surgeries performed or the length of stay in emergency after hospital admission.

- **Output** measurements or indicators such as screenings and check ups for oral health, blood pressure, and cholesterol.
- **Patient Outcome** indicators such as the number of people who died in a hospital compared to mortality risk rates on admission or to the number of people who were discharged, number of patients who incurred injuries while in care, number of patients who were misdiagnosed or improperly medicated, and percentage of people who receive mental health services and regained employment.

The current state of information systems makes it difficult to have relevant information readily available about the cost and quality of services

Our review of business planning included a review of performance measurement and reporting within regional health authorities. The current state of information systems makes it difficult for the Department and regions to have relevant information readily available about the cost and quality of services, including standards or benchmarks against which to interpret data that is variously available. There is an opportunity to obtain missing information and to make better use of existing information in setting performance goals and accounting for results achieved on a regional basis.

If progress is made in the measurement and reporting of service outputs and the quality of care, then the health system would be on the way to becoming more fully accountable for results achieved for costs incurred.

As one step in this direction, for example, the Canadian Council of Health Services Accreditation (CCHSA) has an accreditation program that is used to determine if a health organization meets national standards of quality. Regional health authorities in Alberta are in the process of being accredited by CCHSA. Through a table published by the Department of Health, it would be possible to show Albertans which health authorities and hospitals have been accredited for what, the level of accreditation achieved, and when accreditation was last given.

In view of the significance and complexity surrounding the measurement and reporting of performance, a well designed plan is needed to improve performance measurement and reporting. The plan should indicate what performance information ought to be produced as a priority in relation to agreed expectations. Emphasis should be given to measurements of service outputs and the quality of health services, including patient outcomes.

Information Management

The development and use of health information systems is a subject of continuing importance to my Office. This year we focussed on the development of a province-wide information network (*we//net*) and the progress being made to address the Year 2000 risk as embedded in equipment and computer systems. Our work in the area of information management will continue.

Development of information systems - The *we//net* initiative

Recommendation No. 30

It is recommended that the Department of Health ensure that management processes maximize the prospect of meeting expectations and keeping the cost of a Province-wide information network affordable.

In 1996, I recommended that the Department, in collaboration with health authorities, develop information systems to enable the effectiveness of publicly funded health services to be assessed. In 1997, I observed that progress was being made. A strategic alliance had been formed to launch *alberta we//net*. The need was recognized to coordinate information resources, avoid unnecessary costs, and ensure systems met stakeholder needs.

We//net is a major undertaking with the vision of "better information for better health"

We//net is now a major undertaking with the vision of "better information for better health." The concept: is a Province-wide network to enable information sharing among patients, providers (physicians, hospitals, pharmacists, laboratories, and others), health authorities, and Alberta Health. A Strategic Blueprint identifies 20 initiatives, each composed of several projects. Last year, the Department spent \$15 million on *we//net*. This year it will spend \$40 million to \$50 million. *We//net* is forecast to cost

\$630 million to develop over six to ten years and
\$230 million per year to operate.

The benefits are expected to be correspondingly substantial: improved diagnoses, better response in emergencies, reduced drug interactions, faster and higher quality remote services, and improved information for planning, monitoring and research on a Province-wide basis, all leading to improved and more cost-effective patient care.

Progress clearly continues to be made on the development of a health information strategy for Alberta. However, many risks need to be addressed in order to ensure that *we//net* stays in control and produces benefits at an affordable cost. These include:

- Risks inherent in any large information systems project of cost and time overruns and lack of user acceptance.
- The capability, readiness, and willingness of health care providers to participate.
- The challenge of ensuring accountability in a multi-stakeholder environment.

The value of information technology to the success of the health system is not in doubt. At the same time, success is by no means assured. Across North America, information systems developments in all sectors have a high failure rate in meeting budgets and user needs.

*We//net is entering
uncharted waters*

We//net is risky even for a large, complex systems development program. It is entering uncharted waters. Its multiple stakeholders have diverse interests and capabilities. It involves many interrelated projects and its success depends on a viable approach to the handling of sensitive patient information.

We//net has put processes in place to manage these risks and is continually monitoring their effectiveness. An extensive project management system is in place. The organization structure has been strengthened to improve accountability. An independent agent is performing a quality management role.

However, I would still urge the Department of Health to ensure that:

- Business cases for all initiatives contain quantified benefits as well as costs, assessments of user needs, and clear funding authority.
- Requests for individual project funding include clear statements of deliverables, risks, and costs.
- Strong user commitment to each project is obtained.
- Adequate skills in the design, management, and delivery of complex projects are being applied, from both the Department and contractors, at a reasonable cost.

The Department needs to continually assure itself that the processes for planning, approving, implementing, and monitoring *we//net* initiatives are within the management capabilities of the Department and stakeholders, within the scope of agreed funding, and consistent with an agreed strategy.

Business plan for *we//net*

It is recommended that the Department of Health address outstanding issues in development of a business plan for *we//net*.

The Strategic Blueprint presented a series of initiatives to meet a vision of stakeholder requirements. As the initial projects progressed, the delivery plan to implement the initiatives focussed on more immediate needs, namely health authorities' Year 2000 concerns and rationalization of their financial systems. Meanwhile, a three year business plan is being prepared for *we//net*.

Because of the significant financial risks to the Department and others who may fund *we//net* and the risks to the Department and health authorities of not obtaining information they need, the Department should, in developing the business plan:

- Rigorously analyze delivery alternatives, their costs and risks, risk mitigation strategies, and contingency plans

for the eventuality of one or more initiatives experiencing problems.

- Consider piloting *we//net* initiatives on a small scale to obtain a realistic test of their viability without incurring excessive costs. For example, the pharmacy initiative could be tested with a sample of providers in one region.
- Include a plan to develop and gain acceptance of processes for the ongoing management of *we//net* as it becomes operational.
- Address the question of funding since funding mechanisms have yet to be finalized. User commitment is more likely if their participation in the required investment is secured.
- Include a realistic strategy to address the privacy of patient information, which is critical to the entire program. Physicians' business processes have to change. Public trust that privacy will be protected has to be established. A pilot initiative encompassing privacy issues should be considered.

Central to an effective plan for we//net is consistency with the needs and capabilities of health authorities

Central to an effective plan for *we//net* is consistency with the needs and capabilities of health authorities. I am concerned that the authorities may not have the capacity to absorb the substantial change required by *we//net*. Regional information strategies and plans are variously in place. Some are being developed or updated, or not yet implemented. While health authorities see the merit of *we//net*, they are not currently equipped to support it fully for several reasons: immediate needs, system integration issues, and lack of funds and skills. If *we//net* initiatives are not in line with authorities' capacities, about \$1 billion could be spent building a network that is not used, and the Department and health authorities could still lack information they need.

Reporting on *we//net*

It is recommended that the Department of Health include the projected costs of *we//net* in its business plan and publish a status report in its annual report.

The Department of Health should include the projected costs of *we//net* in its business plan and a status report in its annual report on projects completed and underway, costs to date, and plans for the coming year. Information on *we//net* is available on the Internet. Various communications highlight the aims and expected benefits. Given the significance of *we//net*, as well as the need to gain public support, public accountability requires additional safeguards.

Reducing the Year 2000 risk

Recommendation No. 31

It is recommended that the Chief Information Officer for Health implement a reporting process for determining the results being achieved by health authorities in reducing the Year 2000 risk.

The Year 2000 (Y2K) risk is a pervasive problem for any computerized system that uses a two digit year code as part of its operating program. Such systems may improperly recognize the year 2000 as 1900 and malfunction. Where medical equipment or information systems are concerned, the care of patients may be put at risk if the Y2K risk is not identified and removed from mission critical systems over the next fifteen months.

My previous Annual Reports commented on the Y2K risk in the health system. The risk has been further confirmed. In 1997 the Department of Health funded a study, at a cost of approximately \$2.5 million, to assess the readiness of health authorities. In January 1998, a report indicated that health authorities were not sufficiently prepared to address the Y2K risk as embedded in medical equipment and computer systems.

Progress is being made to address the Y2K issue:

Progress is being made to address the Y2K issue

- On 17 March 1998, Alberta Health announced a one-time allocation of \$130 million from the Alberta Lottery to health authorities for the purpose of making key medical equipment and computer systems Y2K compliant. This is in addition to \$40 million already provided.
- On 3 April 1998, Alberta Health issued terms and conditions for how the \$170 million is to be spent and accounted for by health authorities.
- In April 1998, the Year 2000 Health Secretariat was created by the Department of Health to support the activities necessary for the preparation, planning, testing and remediation of equipment, premises and computer systems. This project is scheduled to operate until March 2000 at a preliminary estimated cost of \$5.6 million for contracted services.
- In May and June 1998, the Department of Health provided guidance to health authorities for the preparation of regional Y2K plans.
- In July 1998, the Department's review of regional plans focussed on whether the required elements of a plan were included. At the level of detail provided, the Department found that it was not possible to assess whether the region could in fact carry out its plan. Basically, the Department determined that regions were aware of major tasks and had allocated resources to them.
- In August 1998, the Department distributed \$81.5 million of Y2K funds to health authorities with the remainder to be paid out in January 1999.

While steps are being taken, only fifteen months remain to remove the Y2K risk

While steps are being taken, only fifteen months remain to remove the Y2K risk from medical equipment, premises, and core computer systems so as to avoid major disruptions in health services in January 2000. Based on discussions with the Department of Health, review of documentation, and analysis of a select number of regional Y2K plans, we have identified the following exposures:

- Initial plans submitted by health authorities to the Department of Health vary considerably in structure and details of what will be done to repair, replace or remove equipment and systems in a timely manner. Some plans are general statements of intent written in a few pages while others contain many pages of time line charts about what is planned to be done. Some plans indicate that an inventory of all equipment and systems has yet to be completed as a first step.
- Little information is currently available from equipment suppliers to know if equipment and systems are Y2K compliant or not. Lack of such information imposes a constraint and puts a greater demand on health authorities to ensure that they are focussing attention on all mission critical equipment and systems that need to become Y2K compliant.
- While money is being made available, health authorities may not have sufficient staff and time available to test and replace equipment and systems. All health authorities need to demonstrate that they have a process in place to manage the work and to address residual risks.
- Contingency plans will need to be put in place to guide actions as may be necessary when December 1999 approaches and to handle potential emergency situations if the Y2K risk has not been removed by January 2000.

*The Minister of Health
should receive assurance*

In addition to controlling Y2K spending, the Minister of Health should, through the Deputy Minister, receive assurance from the Chief Information Officer (CIO) for Health that the Y2K risk is being progressively reduced. Accordingly, a central reporting process should be in place to determine the progress that each health authority is making on its Y2K plan and the results being achieved in terms of having removed the Y2K risk from medical equipment, premises and computer systems.

Computer services

The Department of Health contracts with a computer service provider for all of its information technology services, including computer processing. The contract covers the period to March 2001 with services valued at approximately \$8.2 million per annum.

In June 1997 I was asked by the Deputy Minister of Health to review two incidents surrounding the misplacement of computer tapes. A report was submitted to the Deputy Minister in October 1997. The review concluded that the tapes had, through human error, been moved to an area where tapes are purged of information (re-initialized). It did not appear that tapes left a secured area or were inappropriately accessed. Since then, the contractor has implemented new procedures to reduce the risk of tapes being misplaced or inappropriately erased.

As part of this review, my staff assessed the controls over access to information held on behalf of the Department as well as the controls in the contract management process of the Department of Health. I recommended that the Department of Health:

- ensure that appropriate controls are maintained over information held on its behalf by contractors; and
- improve the process used to manage its information technology contract.

The Department responded and has been providing status reports of the projects associated with the above recommendations. These reports indicate that tapes are now verified before they are erased and reused, a policy on tape management has been distributed, access is now restricted, and a new disaster recovery plan was established in May 1998. Improvements to contract notification procedures have been made with further updates to be made in 1998. Service performance measures have been updated and a pilot project is being tested in 1998 to share the risks and benefits of application support efficiency.

Physician funding

Recommendation No. 32

It is recommended that the Department of Health monitor the implementation of the new agreement with physicians and report annually on results achieved.

In past years I recommended that the Department of Health foster the implementation of physician funding systems that focus on enhancing the health of the population. I noted that an effective remuneration system would likely need to contain several compensation systems since the fee-for-service payment system contains no obvious strategy to promote more cost-effective services.

In 1997 I concluded that systems emphasized funding and payment with less emphasis on assuring that public money was being spent with due regard for efficiency and effectiveness. I recommended that the Department of Health develop a new process to address risks and opportunities within the physician funding and fee-for-service payment systems in cooperation with the Alberta Medical Association and regional health authorities.

A new agreement lays a foundation for addressing concerns

In terms of system practices, the situation has not altered significantly from last year. However, there are provisions under the new five year agreement with the Alberta Medical Association (AMA) that hold renewed promise and a foundation for addressing concerns previously reported.

The agreement negotiated in 1998 provides physicians with a budget increase of \$70 million to cover certain commitments and over expenditures in the last year of the previous agreement, an 8% fee increase over the next three years, and other funding increases for population growth and the rising cost of medical insurance.

The AMA agreement and physician services were addressed as a separate funding pressure and segregated from the business plan formulation for the Ministry of Health. At the end of negotiations in April 1998, the medical services budget increased by \$182 million to \$919 million for the fiscal year 2000-2001, for an overall increase of approximately 24% over three years. This increase represents a significant proportion of the total increase in health funding as provided through the latest business

planning and budgeting cycle. Physicians were allocated \$182 million (24%) compared to a \$205 million (about 6%) approved budget increase for all other aspects of the health system.

Although the government reached an agreement with the AMA that represents all doctors in bargaining collectively with respect to the medical services budget, pressure on the government continues from obstetricians. As of August 1998, obstetricians seek to increase their fee rates in addition to the new benefit provided by agreement where substantially all of their medical insurance will be paid by the government. The value of the insurance benefit to each obstetrician who is a member of the AMA is about \$28,000 a year at an aggregate cost to the government of about \$2.4 million. The fee rates for obstetricians have been controlled by the AMA and have not changed significantly for at least four years since August 1994 when all fee rates were reduced by 4%.

Important features of the new agreement are being put to an early test

In this situation, important features of the new agreement with physicians are being put to an early test. The agreement provides for:

- a finance committee where control over the Schedule of Medical Benefits and fee rates is to be jointly shared between Alberta Health and the AMA and a new process is established for implementing fee-for-service rate changes;
- the elimination of complicated reserve and stabilization fund accounts and the introduction of a new mechanism to adjust fees in order to maintain spending within contract amounts. This requires the forecasting of physician expenditures and for physician fee rates to be increased or decreased accordingly by a formula so that total physician expenditures come as close as possible to contracted budget amounts.
- a renewed commitment to physicians of a choice in the method of compensation and a description of broad steps for the initiation of alternate compensation plans; and

- the formation of a committee to develop a physician resource plan for the Province which is to include criteria for defining regional requirements for physicians.

As reported last year, previous contractual arrangements did not work well. Funding limits were exceeded by significant amounts, \$100 million in expected savings were likely not achieved, and anticipated updating of fee-for-service rates was not accomplished. The new agreement with physicians includes important changes, as described above, that lay a foundation for avoiding similar occurrences in the future.

Accordingly, the Department of Health should provide a report, at least annually, on performance pursuant to the agreement with physicians.

Payments for health services

It is recommended that the Department of Health assess the risk of incorrect payments to practitioners and implement new strategies for improving the payment of claims for health services.

For the fiscal year ended March 1997, the Department paid \$745.1 million to 4,294 physicians for 23.2 million service events provided to about 2.4 million people. For the 1997-98 year, the Department has appropriations of \$789 million to pay for physician services.

The Alberta Health Care Insurance Act states that the Minister of Health shall pay benefits in respect of health services provided to residents. The Act allows the Department to reassess and recover incorrect payments to practitioners. Amounts recovered by the Department are returned to the physician budget and not retained by the Department of Health.

It is important to maintain the integrity of the medical claims payment system

It is particularly important to maintain the integrity of the medical claims payment system since the controls inherent in a market place transaction are missing. The natural checks and balances at play when a person pays for a good or service do not exist when a patient receives medical services. The government, as payor of services, is separate from the person who provides the service and the person who receives the service.

The system of paying medical claims submitted by practitioners is premised on cooperation between the Department of Health and health practitioners. However, a system that involves thousands of claims to the Department of Health each month and payments according to thousands of service codes and payment rules is prone to a higher risk of errors.

The goal of the Department is to prevent incorrect claims from being submitted as well as detecting them when physician claims are processed and to recover overpayments if they have not been stopped during claims processing by the Department of Health.

There is a risk of overpayments not being examined and/or recovered

While improvements have been made to prevent incorrect payments, enhanced strategies are needed to achieve the Department's goal. There is a pattern of claims that are outside the norms established by the Department. There is a risk of overpayments not being examined and/or recovered.

In October 1997, the Department activated a redesigned Provider Profiler System (PPS) to determine normal billing practices of practitioners matched for specialty, type of practice and location. This system identifies payment claims which deviate significantly from the norm using eight criteria. PPS is running one year behind. At March 1998, the system began profiling practitioner claims for the period January 1, 1997 to March 31, 1997. The Department intends on getting PPS up to date during 1998.

According to the Department of Health, approximately 17% (700/4200) of practitioners were flagged at least once for a claim abnormality during 1996. Comparative data for previous years is not readily available. Approximately 43% (300/700) of those identified have a continuing potential problem since they were flagged throughout 1996. Overall, approximately 7% of all practitioners were flagged by PPS as having questionable claims in all four quarters of 1996.

Only cases flagging on four or more criteria are currently investigated by the Department. This means that only 5% of the approximately 700 practitioners identified by the PPS as having a potential claim problem are investigated. The Department has not yet estimated the value or magnitude of incorrect payments for the remaining 95%, or performed a

risk assessment for all payments. It can take up to three months to reassess one practitioner. The Department recovered approximately \$339,000 over the past year.

One estimate, based on data analysis done by my staff, of overpayment risk amounted to \$1.6 million. It should be noted that this estimate does not include possible incorrect payments resulting from undetected coding errors and unnecessary services. As this estimate also does not encompass all claims and payments, including those of medical specialists, it should be considered preliminary until the Department prepares a more in-depth risk assessment. Moreover, composite accounts for specialized services must be examined separately since they do not lend themselves to the system used to flag questionable claims.

A risk assessment would help the Department better understand billing practices

A risk assessment would help the Department better understand billing practices and focus strategies for improved claim and payment practices, and to better target payments for appropriate reassessment. It may also indicate where system capabilities need to be improved to prevent or detect incorrect payments. A risk assessment should also help ensure that the use of averages or norms in claims assessment does not inadvertently penalize practitioners who are innovative and efficient in the delivery of health services.

The Department and health practitioners should jointly establish strategies that would reduce the risk of payment errors

The Department and health practitioners should jointly establish strategies that would reduce the risk of incorrect claims and payments. This would reinforce the integrity of the medical claims system, improve the equity of payments among physicians, reduce cost to taxpayers, and support Departmental staff who have been working diligently within the present claim payment system.

The Department has recently established an external billing practice advisory committee involving practitioners. One of the roles of this committee could be to develop strategies for improving the system of claims and payments and to reduce the risk of overpayments. Among the possible strategies are:

- Conducting a risk assessment of claims paid to practitioners with a view to increasing claim investigations.

- Formalizing the rules for reassessing medical claims since they are not sufficiently comprehensive and binding in relation to present service practices.
- Sending profile information directly to practitioners so they become aware of how their billing practices compare to their peers.
- Increasing service confirmations with patients in areas identified as having a high risk of incorrect billings.
- Charging interest on reassessed amounts. Presently practitioners who have been reassessed have had free use of money that otherwise would not have been paid.
- Increasing the referral of significant and/or repeating cases of claim problems to health professional organizations, such as the College of Physicians & Surgeons, to assist their interest in maintaining the integrity of the system and with the expectation to report steps taken to the Minister of Health.

Financial Reporting in the Health Sector

Financial reporting to Members of the Legislative Assembly and the public is essential to maintaining accountability for the health system. The ability to assess the cost and quality of health services is important whether at a Provincial or regional level.

The financial statements of individual health authorities are useful in assessing the performance of each health authority. The Department continues to provide guidance to health authorities on the preparation of their individual financial statements. I endorse the Department's position that financial statements should be prepared in accordance with generally accepted accounting principles and that accounting policies adopted should be consistent among health authorities.

Financial statements that consolidate the operating results of the Department of Health and health authorities are not being produced

However, financial statements that consolidate the operating results of the Department of Health and health authorities are not being produced. This is a significant limitation to the provision of meaningful financial information for making decisions and assessing performance of the health system.

While health authorities are accountable to the Minister of Health, their financial results are excluded from the Ministry of Health as a reporting entity since this is not required by government accounting policy. While generally accepted accounting principles are applied to the financial statements of individual entities, they are not followed with regard to consolidated reporting of regional health authorities.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Health for the year ended March 31, 1998. My auditor's report contained an adverse opinion. The report should be read for full details of the reasons for the adverse opinion. The opinion was given since the financial position and results of operations of health authorities were not consolidated in the Ministry of Health financial statements.

I encourage the Department to pursue consolidated reporting

I encourage the Department of Health to pursue consolidated reporting of all entities accountable to the Minister of Health. The benefits include improved understanding of costs and improved comparability of financial information. Members of the Legislature and other decision makers would be able to observe financial performance in one place and help guide the allocation of resources among competing sectors.

Consolidation would increase reported ministry assets by \$2.7 billion and increase liabilities by \$2.3 billion. This would communicate the collective cost of health system assets, primarily made up of buildings and equipment. Moreover, it would be possible to disclose the total amount of capital additions made in a given year. Such information would otherwise have to be extracted from 20 individual financial statements.

Consolidated reporting may also lead to more precise information on what portion of the total \$4.2 billion health budget is devoted to each type of health service (e.g. to each of acute care, ambulatory services, palliative care, promotion and protection). Information on the full costs of programs is not currently produced in a single set of financial statements.

The primary objective of ministerial financial statements should be to provide an accounting of the full nature and extent of resources for which a Minister is responsible. Accordingly, I commend the use of complete reporting.

Regional Health Authorities and Provincial Health Boards

Report under Section 19(3.1) of the Auditor General Act

Regional health authorities operate under the *Regional Health Authorities Act*. The *Act* requires that unless the Minister appoints the Auditor General to express an opinion on the financial statements of a regional health authority, the authority must appoint an auditor. I have been appointed auditor of 9 of 17 regional health authorities and am statutory auditor of both Provincial health boards. For each regional health authority that I audit, I have appointed a private sector audit firm as my agent to perform the attest audit of financial statements.

Under Section 19 (3.1) of the Auditor General Act, I am required to report on the results of examinations by the auditors of regional health authorities, Provincial health boards, subsidiary health corporations, and community health councils. This applies to all such organizations, whether or not I have been appointed as their auditor.

It is not practical to complete a consolidated analysis of annual reports and financial statements in time for my reporting in September of the same year. This is why I am reporting on the audits for the year ended March 31, 1997 in my 1998 Annual Report.

*All health boards' and
authorities' financial
statements have been
audited and received
unqualified audit opinions*

All health boards' and authorities' financial statements have been audited and received unqualified audit opinions for 1997. For the most part, financial statements were prepared on a consistent and comparable basis.

Since last year, the Department of Health has taken steps to improve the financial reporting of authorities. The defer and match method of reporting capital contributions will be introduced in 1997-98 in order to better match expenses and revenues.

The following additional matters were reported in detail by my letter issued April 7, 1998 to the Deputy Minister of Health and to all health authorities:

- Alberta Health and health authorities will need to ensure that date sensitive equipment and information systems will properly recognize the year 2000 and continue to operate at the end of 1999. The Department of Health is now working on this issue in conjunction with health authorities.
- Systems of internal control require attention to help ensure the orderly and efficient conduct of business. Auditors reported various concerns relating to budgetary control, management of capital assets and inventories, payroll and human resource management, and the management of cash and investments.
- Financial reporting by health authorities is improving. However, there are opportunities for health authorities to provide more complete and timely financial information. These include the timely completion of financial statements, improved disclosure of information regarding foundations, and better disclosure of investment information.
- And, health authorities could make better use of financial analysis to enhance management discussion of performance in annual reports and to identify business risks.

Crossroads Regional Health Authority

On November 26, 1997, I was asked by the Department of Health to undertake a review of the Crossroads Regional Health Authority (the Authority) in relation to the report of the MLA Committee on the Review of Health Region Boundaries. I undertook a review of the financial position of the Authority as at October 31, 1997, a review of the forecast financial position of the Authority as at March 31, 1998, and an assessment of the business risks that would require

management relating to the change of boundaries between regional health authorities.

The results of my review were reported by letter to the Deputy Minister of Health on April 27, 1998. I opined that the assumptions developed by management were suitably supported and consistent with the plans of the Authority, and provided a reasonable basis for the forecast; the forecast reflected such assumptions; and the financial forecast complied with the presentation and disclosure standards for forecasts established by the Canadian Institute of Chartered Accountants.

I recommended to the Deputy Minister of Health that principles be established to assist with decisions on how the transfer of assets, liabilities and a portion of a surplus or deficit, if any, should be handled as a result of changes to regional health authorities. The experience gained by all involved in the boundary change represents a valuable lesson for dealing with similar circumstances in the future.

Other entities

Financial statement audits of the following were also completed for the year ended March 31, 1998:

Regional Health Authorities:

- Capital Health Authority**
- Calgary Regional Health Authority**
- Chinook Regional Health Authority**
- East Central Regional Health Authority**
- Headwaters Health Authority**
- Northern Lights Regional Health Authority**
- Peace Regional Health Authority**
- Regional Health Authority 5**
- WestView Regional Health Authority**

Provincial Health Boards:

- Alberta Cancer Board**
- Alberta Cancer Foundation**
- Alberta Hospital Edmonton Foundation**
- Provincial Mental Health Advisory Board**

Crown Foundations:

Pursuant to the Health Foundations Act, Crown Foundations are corporations and for all purposes are Provincial agencies. Accordingly, the Auditor General is the auditor of Crown Foundations pursuant to section 12(a) of the Auditor General Act. The following Crown Foundations became active and financial audits were completed for the 1997-98 fiscal year:

Capital Health (Crown) Foundation
Calgary Health (Crown) Foundation
Health Region #6 (Crown) Foundation

Guidance to reader

The mission of the Ministry is to lead the development of government-wide policies and strategies for Alberta's relations with other Canadian governments (federal, provincial and Aboriginal), the Aboriginal community, and international governments and organizations.

A significant risk associated with Intergovernmental and Aboriginal Affairs relates to the assistance given to Metis settlements through the Metis Settlements Transition Commission. My work continues to be focused on reviewing planning processes.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Intergovernmental and Aboriginal Affairs for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for the reservations on Ministry financial statements.

Metis Settlement Transition Commission
year ended March 31, 1998**Metis Settlements Business
Plans - Background**

*Three-year plans
containing performance
measurement targets were
due*

In my previous report (page 114), under the Ministry of Family and Social Services, I commented on the need for longer-term planning by Metis Settlement councils. The Commission had agreed with the eight Metis Settlements that three-year plans containing performance measurement targets would be required.

The objectives of the current review were to assess the consistency of the business plans with relevant criteria and to analyze the process used by the Commission to approve these business plans.

A number of significant accomplishments were noted, including:

- Each settlement clearly defined the settlement's mission and/or vision statement in its business plan.

- Most of the settlements identified critical influences that affect their ability to achieve planned goals.
- Each settlement made an attempt to involve its members in the planning process by either holding informal public meetings or having the members complete surveys.
- In most cases, the business plans reflect an analysis of and are consistent with public expectations.

It is evident from the business plans that all eight settlements have some understanding of the funding and resource limitations, and other constraints. For most settlements, this understanding is most clearly set out in the education and infrastructure sections of the business plans.

It is also apparent that the availability of training in business planning proved to be a great asset to some settlement councils.

Settlements have made a significant first step in business planning. We noted opportunities for improvement in plans that would increase their usefulness, as follows:

Business planning process

Recommendation No. 33

It is recommended that the Metis Settlement Transition Commission further develop the business planning process to help ensure significant expectations are clearly identified and that achievement is measured.

Within the next few months the Commission and settlements will be preparing their next three-year business plans. In that context, I believe that the consideration of the following items will assist in improving settlement business plans.

- Seven of the eight settlements filed business plans after the deadline. The usefulness of plans will be improved if they are provided on a timely basis.
- Although the settlement councils show an understanding of the resource limitations, they do not reflect this understanding in all the goals and strategies included in the plans. It is important that the financial implications

of achieving all goals and implementing all strategies be explained in plans.

- Goals and strategies should not be unrealistic or overly ambitious. For example, one settlement's business plan has over 120 goals and strategies. Business plans could be improved if they focused on a few key goals that are achievable.
- The performance measures included in the business plans could be improved if they were expressed as quantified targets for services and results. The following two examples are provided to illustrate this point.
 1. One of the goals under the education section of a settlement's plan is to increase the number of students graduating with a high school diploma. The performance measure for this goal is "more students completing grade 12." A better performance measure would be a quantified target which the settlement would then aim to attain by a certain date (e.g. by June 30, 2001, a prescribed percentage of all students entering high school that graduate within three years).
 2. Improving communication is listed as one of the goals under the governance section of another settlement's business plan. The performance measure for this goal is to hold regular public meetings and improve attendance. Since this is a measurable outcome, a quantified target would be more appropriate, (e.g. hold a public meeting every quarter and increase the rate of attendance to a prescribed percentage of members by December 31, 1999).

My staff also examined the criteria used by the Commission in approving the settlement business plans. The criteria used were set out as headings with no additional information about the expected content under these headings. In my view the criteria would be more useful to the Commission if it described what was meant by each heading. This would more clearly communicate what is expected.

Other entities

A financial audit for the **Metis Settlement Transition Commission** was completed for the year ended March 31, 1998.

Guidance to reader

The commitments of the Ministry of Justice are to foster safer, more secure communities and administer justice effectively. The justice system spans areas of policing, prosecution and trial, sanctions, legal services and social programs. The Ministry comprises the Department and the Victims of Crime Fund, a regulated fund. For 1997-98, the Ministry's total expenses were approximately \$375 million, of which \$181 million was spent on manpower and \$134 million on supplies and services.

Providing high quality and effective police services to Albertans is one of Justice's five core businesses. This incorporates the Department's responsibility of overseeing general policing and policing standards in the Province, and it spends approximately \$92 million annually in the program area. The Department contracts policing services for rural and small communities to the Royal Canadian Mounted Police (RCMP), and also enters into tripartite agreements for policing First Nations. Other policing services, for larger communities in Alberta, are either contracted directly with the RCMP or administered by municipal governments. Maintaining law and order in Alberta, one of the Ministry's six goals, is dependent on the successful overseeing of all policing services in Alberta. My staff performed an examination of the system used by the Department to administer the provision of policing services.

Another goal of the Ministry is to provide access to legal aid services to those persons who are not be to acquire them otherwise. The legal aid program is independently operated, however the primary source of funding comes from Alberta Justice. To achieve its goal, the Department needs information regarding the predicted demands for legal aid services. To support legal aid, the Department spends approximately \$22 million annually. We reviewed the system used by the Department to determine the amount of grant allocation to the Legal Aid Society.

Ministry Financial Statements

I conducted an audit of the consolidated financial statements of the Ministry and Department of Justice for the year ended March 31, 1998. My auditor's reports contained a reservation of opinion. The auditor's reports should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

My staff also reviewed the Ministry's performance measures, and provided comment with respect to specified audit procedures that were completed.

Department of Justice year ended March 31, 1998

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the system to administer the provision of policing services.
- A review of the system to allocate grants to the Legal Aid Society of Alberta.
- An examination of the system used by the Department to manage technology development projects.
- A review of the Ministry's plans to address the Year 2000 compliance issue with regard to its computer systems.

Policing Services - Background

In Alberta, certain municipalities can establish their own or regional police forces, or they can contract for RCMP services. For municipalities with fewer than 2,500 people, the province contracts RCMP services at a yearly cost of about \$79 million. In the case of First Nation reserves, the provincial and federal governments and a First Nation may enter into a tripartite agreement for policing services. In all three situations, Justice has responsibilities, stemming either from the Police Act or agreements. Public safety in Alberta is dependent on quality policing services, which falls under the responsibility of Alberta Justice.

Measuring performance

Recommendation No. 34

It is recommended that the Department of Justice in collaboration with policing services set measurable performance objectives for service delivery in the Province.

The Police Act gives Justice responsibilities for the provision of sound policing in Alberta. It requires Justice to have systems in place to monitor all policing services in the Province, to identify areas where policing adequacy and effectiveness needs improving and to take appropriate action. While some monitoring of policing is performed on services falling within the Provincial/Federal policing agreement, we found that the Department needs to improve the extent of its monitoring.

I am not suggesting that policing in Alberta is inadequate or ineffective. However, my staff found little evidence that Justice has evaluated the adequacy and effectiveness of policing, especially for municipal police services.

Justice uses complaint information, the number of police officers per community and some crime statistics. Justice has yet to complete a formal definition of adequate and effective policing.

Justice needs information to assess the adequacy and effectiveness of police services as required by the *Police Act*. In conjunction with stakeholders, it should define adequate and effective policing, and then develop measurable performance objectives.

Legal Aid

Background

One of the Department's six goals is to provide access to legal aid to those persons who are eligible. To that end, the Department provides financial assistance to the Legal Aid Society of Alberta for maintaining the programs needed to provide legal services to those persons meeting certain financial and other eligibility criteria. The Department also receives about \$6 million annually from the federal government as a contribution to the costs of providing legal aid.

Funding for Legal Aid

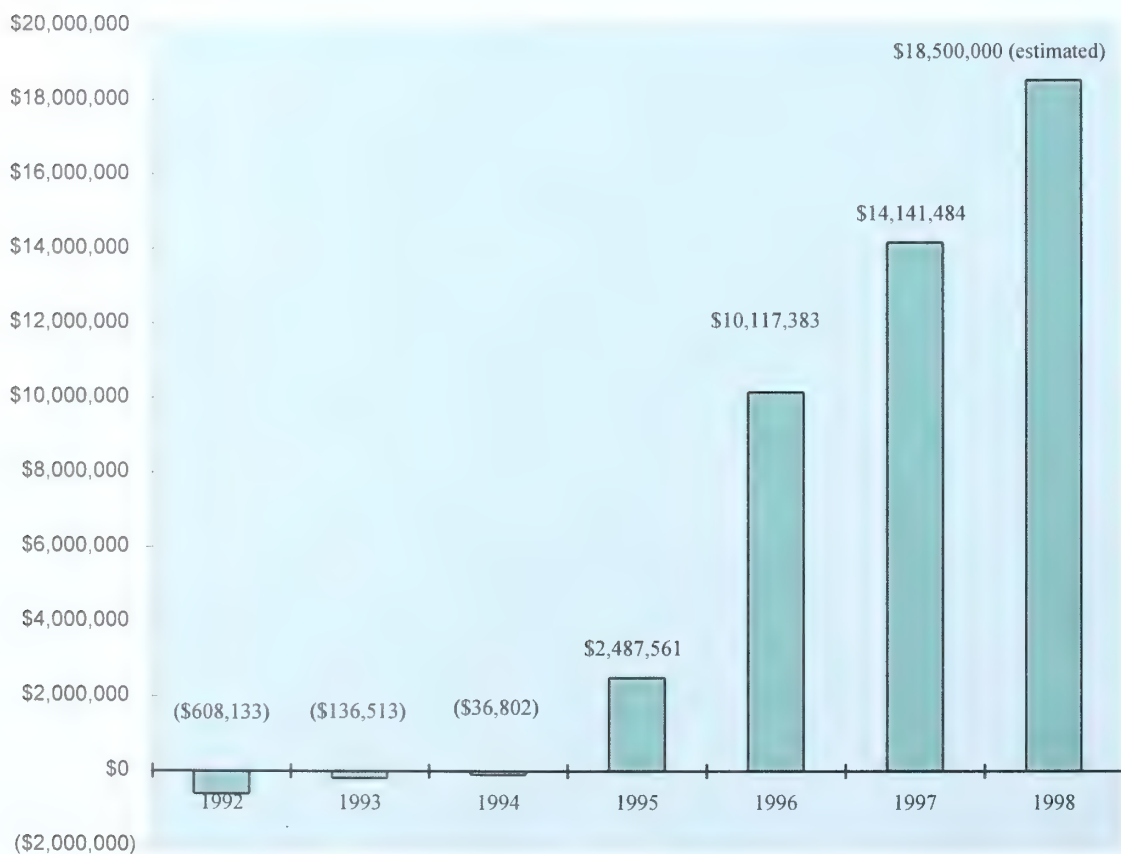
*Funding should closely
match expenses*

It is recommended that the Department of Justice consider the magnitude of the surplus held by the Legal Aid Society when determining the appropriate level of funding.

Annually, the Department grants approximately \$20 million to the Legal Aid Society, which is a substantial component of this Society's total revenue. This funding is based on an agreement between the Law Society of Alberta and the Minister of Justice and Attorney General, which requires the Department to provide funds to "maintain the legal aid plan" for the upcoming year. Under this approach, it is expected that each year, funding will closely match expenses.

*Surplus has been growing
since 1994*

However, as indicated in the following graph, annual funding has been exceeding expenses since 1994.

Legal Aid Society Surplus Balances

*Better evaluation needed
of funding requirements*

The Department needs to evaluate, during its annual budget planning process, the appropriate amount required by the Society to meet its expenses. Any surplus in the Society should be considered by the Department when evaluating funding requirements.

Other entity

My auditor's report on the financial statements of the **Victims of Crime Fund** (formerly the Victim's Programs Assistance Fund) for the year ended March 31, 1998, contained reservations of opinion. The auditor's report should be read for full details of the reservations.

Guidance to reader

Programs of the Ministry are delivered through the Department and The Worker's Compensation Board

The Ministry is responsible for programs designed to promote safe and healthy workplaces, support quality of working life, and provide comprehensive safety systems. These programs are delivered through the Department of Labour and The Workers' Compensation Board. In 1997-98 the Ministry's program expenses were approximately \$28 million (1996-97 \$28 million). This does not include the expenses of The Workers' Compensation Board and delegated administrative organizations (DAOs).

The Department has delegated many program delivery responsibilities to other organizations

Since 1995, the role of the Department has changed from direct program delivery to policy development and program monitoring. In the past few years, many program delivery responsibilities have gradually been delegated to other organizations. This transition process has involved developing partnerships with municipalities, DAOs and other private sector entities. These organizations and entities are authorized to provide various services but remain accountable to the Minister.

Safety services are now delivered by approximately 600 delegated entities

Under the Safety Codes Act, the Minister is responsible for the regulation and application of safety services in disciplines such as building, electrical, plumbing and gas. These services are delivered by approximately 600 delegated entities. These entities include the Safety Codes Council, four DAOs and numerous accredited municipalities, agencies and other entities.

Proper accountability of delegated entities is critical to the achievement of the Ministry's goals

Adequate performance by the delegated entities is critical to the achievement of the Ministry's goals. Developing effective ways of monitoring the activities of delegated entities and ensuring their proper accountability has been, and continues to be, a major challenge for the Ministry. For this reason, the accountability of delegated entities to the Ministry continues to be the focus of my audit efforts.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Labour for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this

report, I have provided a summary of the reasons for the reservations in my auditor's reports on ministry and department financial statements.

Reporting Entity

Safety Codes Council and the four DAOs should be consolidated with the Department

The reserved opinion was, in part, necessary because the Ministry's financial statements did not include the results of operations, and assets and liabilities of the Safety Codes Council and the four DAOs (Alberta Boilers Safety Association, Alberta Elevating Devices and Amusement Rides Safety Association, Alberta Propane Vehicle Administration Organization Ltd., and Petroleum Tank Management Association of Alberta). In my view, the financial statements of the Safety Codes Council and the DAOs should be consolidated with those of the Department. The effects of not consolidating these entities, although not reasonably determinable, is presumed to be significant.

In Alberta, safety services administration is the responsibility of the Minister of Labour. The Safety Codes Council was incorporated under the Safety Codes Act. Under the Government Organization Act, the Minister has delegated many of his duties to the four DAOs and numerous other delegated authorities. The Safety Codes Act authorizes the Safety Codes Council, the four DAOs and the other delegated entities to perform duties and functions that are integral to the achievement of the Minister's responsibilities under the Act.

The Council and the DAOs are accountable to and controlled by the Minister

In my view, the Council and the DAOs are both accountable to and controlled by the Ministry and therefore should form part of the Ministry's reporting entity. These entities are required to submit an annual report to the Minister and are responsible to the Minister for the performance of their delegated functions. The Minister controls the operations of the entity through the approval of bylaws and fees related to their delegated functions. In addition, revenues earned by these delegated entities must be applied to costs arising from the performance of their delegated functions and cannot be used for another purpose.

Consolidation would provide a complete overview of the Ministry's operations and performance

Consolidation of the financial statements of the Safety Codes Council and DAOs with the Department would provide a complete overview of the full nature and extent of the financial affairs and resources for which the Minister is accountable. For the Ministry to measure its performance,

all costs and outcomes associated with the Ministry's goals should be included in the Ministry financial statements. Consolidation of the financial statements of the Safety Codes Council and DAOs and the Department would bring together all the relevant accountability data of the Ministry in the safety services area and increase the overall usefulness of the Ministry's financial statements.

*Other delegated entities
are not part of the
Ministry reporting entity*

In my view, the other delegated entities (accredited municipalities, agencies and corporations, authorized accredited agencies, and authorized contractors) should not be included as part of the reporting entity. Although these entities are accountable to the Minister for the performance of delegated functions, the Minister does not control their operations. For authorized accredited agencies, the Minister approves the maximum fees charged for delegated functions; the Minister has no control over fees charged by the other delegated entities. In addition, most of these entities are established organizations and businesses for which delegated functions represent only a part of their activities.

Department of Labour year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- Application of specified audit procedures to key performance measures reported in the Ministry's 1997-98 annual report.
- A follow up of my prior year recommendations regarding the monitoring of the performance of delegated entities, and the backlog of in-service inspections of pressure equipment.
- A review of the Ministry's progress in addressing the Year 2000 issue.

**Monitoring the Performance
of Delegated Entities****Recommendation No. 35**

It is recommended that the Department of Labour continue to improve its processes for monitoring the performance of delegated entities based on an assessment of risks.

In my 1996-97 annual report (page 156), I recommended that the Department develop policies and procedures to monitor the performance of delegated entities to ensure that those entities are delivering the services delegated to them in a satisfactory manner. The Department agreed with this recommendation and committed to develop an effective monitoring system.

The Department has adopted a risk-based approach to monitoring delegated entities and has focused on monitoring the DAOs and contracted accredited agencies

I am pleased to report that the Department has made progress in achieving this objective. The Department has adopted a risk-based approach to monitoring the performance of delegated entities and, therefore, has concentrated its resources on monitoring the four delegated administrative organizations (DAOs) and approximately 25 contracted accredited agencies. The Department has developed policies and procedures for monitoring the performance of these entities. In addition, the Department regularly reviews and evaluates performance information provided by the DAOs and contracted accredited agencies.

The performance of many of the remaining 600 delegated entities has not been assessed

The performance of the remaining, approximately 600, delegated entities has not been assessed by the Department. Many of these entities have not been audited or required to submit periodic performance information since they began performing the delegated functions. Consequently, the Department presently has no information to assess whether these entities adequately and effectively perform the delegated functions.

Systems must be developed to monitor the remaining delegated entities

To manage the risk that safety services may not be adequately delivered the Department should develop policies, procedures and processes to monitor the performance of the remaining delegated entities. The nature and extent of the required performance information and monitoring processes should be based on the Department's assessment of risks associated with the nature of the services provided by the delegated entity.

The Department is responsible for the regulation and delivery of safety services and therefore must ensure that the safety services provided by all delegated entities are delivered in accordance with the Safety Codes Act.

**In-service Inspection
Backlog – Pressure
Equipment**

Recommendation No. 36

It is recommended that the Department of Labour, in conjunction with the Alberta Boilers Safety Association, develop a comprehensive plan for eliminating the backlog of in-service inspections of pressure equipment.

In my 1996-97 annual report (page 158), I recommended that the Department of Labour work with the Alberta Boilers Safety Association (ABSA) to reduce the backlog of in-service inspections. At that time, the Department indicated that the backlog of in-service inspections would be eliminated over a four-year period.

At October 1996, over half of the scheduled in-service inspections were in arrears

In Alberta, approximately 80,000 boilers and pressure vessels require periodic in-service inspections. These pressure equipment items are located in both public and private facilities. At October 1996, over half of the scheduled in-service inspections were in arrears, including approximately 20,000 inspections that were overdue for more than five years. In addition, there were 800 items of equipment located in public facilities for which inspections were overdue for more than two years.

Progress has been made in reducing the backlog

The Department and ABSA have made some progress in reducing the backlog of in-service inspections. The total number of overdue inspections, including inspections that are overdue for more than five years, has decreased. During the past year, ABSA's priority has been to reduce the backlog of overdue inspections operating in public facilities, as these could represent the most significant public safety risk. Consequently, the backlog of overdue in-service inspections for equipment operating in public facilities, for which inspections were overdue by more than two years, was reduced by 67%.

There are still a significant number of overdue inspections

Despite the progress achieved there is still a large backlog of overdue inspections. As at June 1998, in-service inspections for approximately 32,000 pressure equipment items were still overdue, with inspections for approximately 17,000 items

being overdue for more than five years. These overdue inspections may indicate a higher risk of boilers and pressure vessels performing below accepted safety standards.

The four-year target for backlog elimination may not be attainable

Many factors indicate that the initial four-year target for backlog elimination may no longer be attainable. The amount of pressure equipment eligible for in-service inspections is increasing due to a rapid growth in pressure equipment-related industries such as the oil and gas industry. It is also expected that ABSA will experience a shortage of inspectors in the future. Several of ABSA's inspectors are nearing retirement age while, at the same time, the present market demand for qualified pressure equipment inspectors exceeds supply.

A comprehensive backlog elimination plan is needed

A comprehensive plan is needed to guide ABSA's backlog elimination efforts as well as facilitate the Department's monitoring of the backlog reduction process. The plan would outline periodic targets/expectations, resources needed to achieve these targets, and strategies to address business risks. Regular comparison of actual and targeted performance would facilitate prompt problem identification, and allow for timely action to be taken to stay on target.

As the Department is ultimately responsible for public safety, it must take action to reduce the risk to public safety arising from the backlog of in-service inspections.

Year 2000

Recommendation No. 37

It is recommended that the Department of Labour take action to ensure that its information systems and critical systems of external stakeholders are Year 2000 compliant to reduce the risk of the Department's business operations being adversely affected by the Year 2000 issue.

An assessment of the Department's systems for Year 2000 compliance had not been completed

A review of the Department's progress in addressing the Year 2000 issue indicated that an assessment of information systems and application software for Year 2000 compliance had not been completed. As a result, detailed plans and timelines for enhancements or replacements of application systems and other products that are not Year 2000 compliant had not been developed.

An assessment of the systems used by external stakeholders had not been completed

In addition, it was noted that an assessment of the systems used by the Department's external stakeholders (DAOs, accredited municipalities, agencies and other delegated entities) for Year 2000 compliance had not been completed. The Department's external stakeholders deliver programs for which the Minister is responsible. Some of the information systems used by the stakeholders contain information that is critical to maintain public safety. For example, an application used by the Alberta Boilers Safety Association (ABSA) maintains information on all pressure vessels in Alberta and their scheduled inspections. Information in this system is also important to the Department as it is used to monitor the adequacy and effectiveness of ABSA's performance of delegated functions.

A plan to address the Year 2000 issue should be completed immediately

To reduce the risk of having operations adversely affected by the Year 2000 issue, the Department should expedite completion of the Year 2000 assessment and develop a comprehensive plan to address the problems identified. This plan should include detailed plans and timelines for replacing or enhancing existing software, hardware and equipment that are not Year 2000 compliant. This plan should also include an assessment of the actions taken by external stakeholders in addressing the Year 2000 issue and further action required to ensure that their systems will be Year 2000 compliant.

A contingency plan is required

Due to the short time frame remaining to address the Year 2000 issue, it is critical that the Department also develop a contingency plan. I understand that the Department has recently completed a draft Year 2000 project definition that outlines a high-level plan for addressing the Department's Year 2000 risks. The plan also identifies that there is a significant risk that some of the Department's active applications will not be Year 2000 compliant. A contingency plan is necessary to address this risk and reduce the impact of information systems failure on the Department's business operations.

Other entities

The annual financial audit for **The Worker's Compensation Board** for the year ended December 31, 1997 was completed by a private sector audit firm under my direction.

A financial audit was also completed for the **Joint Standards Directorate** for the year ended March 31, 1998.

Guidance to reader

The Legislative Assembly has six legislative Offices whose expenses in 1997-98 were as follows:

Legislative Assembly Office	\$20.5 million
Office of the Auditor General	\$9.5 million
Office of the Chief Electoral Officer	\$1.5 million
Office of the Ombudsman	\$1.0 million
Office of the Ethics Commissioner	\$0.1 million
Office of the Information and Privacy Commissioner	\$0.9 million

These Offices do not administer significant revenue systems.

*The legislative Offices are
voluntarily producing
financial statements*

With the exception of the Office of the Auditor General, the legislative Offices are not required to produce annual financial statements. I am pleased to report, however, that all of the Offices have committed to produce financial statements for the year ended March 31, 1998, and to have them audited and tabled in the Legislature.

The financial statements of the Office of the Auditor General for the year ended March 31, 1998, were audited by a private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices. The financial statements are included in this report starting on page 251. In the case of the other Offices, draft financial statements have been prepared. My staff are in the process of auditing them. These financial statements are to be tabled in the Legislature later this year.

In addition, the following Offices have agreed to include salary and benefit disclosures within their financial statements:

Office of the Auditor General
Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Information and Privacy Commissioner
The Legislative Assembly Office

In doing so, the Offices have agreed to follow the disclosure requirements established by the Treasury Board for government, to allow their disclosures to be compared to government entities.

The Office of the Ombudsman is considering disclosing its salary and benefit costs within its financial statements.

Scope of audit work

In addition to the annual financial audit work, a follow up has been done on the Offices' plans to address the Year 2000 compliance issue with respect to automated systems.

Guidance to reader

The mandate of the Ministry of Municipal Affairs is to facilitate the development of good local government; to ensure that those in greatest need have access to basic shelter; to ensure registration and licensing services meet public needs; and to encourage a fair marketplace for consumer goods and services in Alberta. The Ministry works to accomplish its mandate through four core businesses:

- Local Government Services
- Housing - including Alberta Social Housing Corporation
- Consumer Services
- Registry Services

During 1997-98, the Ministry collected approximately \$309 million in fee, permit and license revenue, and its expenditures totaled approximately \$281 million.

The Ministry of Municipal Affairs is responsible for delivering the government's social housing programs. These programs include Seniors' Housing, Community Housing, Rent Supplement Housing, Rural and Native Housing and Special Needs Housing. The Ministry provides subsidized accommodation to Albertans who meet eligibility criteria defined in the Alberta Housing Act and regulations.

The Ministry of Municipal Affairs is working with the private sector to deliver its housing and registry programs. The Ministry's housing programs are delivered through 152 management bodies, and its registry services are provided by 230 registry agents.

The Ministry owns about 24,000 housing properties with a net book value of \$920 million. In addition, under the Rent Supplement Housing Program the Ministry provides subsidized housing to Albertans by making partial rent payments to private landlords to supplement the reduced rents paid by eligible tenants. Including amortization, debt servicing costs and other operating costs, social housing program gross expenditures for 1997-98 amounted to \$263 million.

The social housing goals of the Ministry include ensuring that social housing inventory is appropriate for the communities' needs and is maintained to a proper standard, while minimizing delivery and administration costs.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Municipal affairs for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Reporting Entity

The most significant issue is that the assets, liabilities, revenues and expenses of the management bodies have not been consolidated into the Ministry's financial statements.

The management bodies were established as a means of delivering the Ministry's housing programs. They use the resources of the Ministry and, with certain exceptions, the housing properties are owned by the Ministry through the Alberta Social Housing Corporation. The management bodies' budgets are approved by the Minister, and their operations are governed by the Provincial regulations.

Under the Alberta Housing Act, the Minister has the authority to direct the operations of the management bodies, and appoint their board.

The Minister is still responsible for the success of the programs, and the management bodies are held accountable by the Minister for their delivery. In my view, the financial statements are incomplete so long as the assets, liabilities, revenues and expenses of the management bodies remain unconsolidated.

Scope of Audit Work

In addition to the annual financial audit, the following work was completed:

- A follow up of prior year recommendations regarding the monitoring of management bodies to ensure that Ministry goals are met.
- A review of the Ministry's progress in addressing the Year 2000 compliance issue with regard to the Ministry's many automated systems.
- Audits of the 1996-97 cost-sharing claims under the National Housing Act (Canada).
- Special audit procedures applied to the performance measures to be included in the Ministry's 1997-98 annual report.

**Joint Audit of Alberta
Registries**

Also, at the request of the Deputy Minister of Municipal Affairs, the Office of the Information and Privacy Commissioner and the Office of the Auditor General conducted an audit of Alberta Registries.

On April 15, 1998, a final report of matters arising from the audit was issued to the Minister of Municipal Affairs. On April 22, 1998 this report was tabled in the Legislative Assembly by the Minister and released publicly by the Information and Privacy Commissioner.

An overview of the engagement and significant recommendations is provided in a separate section of this report, and can be found on page 229.

Housing Programs**Monitoring of management
bodies**

It is again recommended that the Ministry of Municipal Affairs request management bodies to set measurable expectations to allow comparison of actual results to stated expectations.

*Goals of the management
bodies should reflect the
goals of the Ministry*

A similar recommendation was made in the 1996-97 annual report (page 175). Management bodies have been established by the Minister to operate and administer housing accommodation as part of the social housing programs of the

Ministry. The Minister remains ultimately responsible for the success of these programs, and therefore the Ministry should satisfy itself that the goals and expectations of the management bodies reflect the goals and expectations of the Ministry.

Management bodies should be accountable for meeting expectations

Measures should be established whereby the performance of each management body towards achieving Ministry goals can be evaluated and compared with others. Expectations should be agreed upon with the bodies annually so that they commit to and can be held accountable for their annual level of performance.

The Ministry has no established measures for housing Albertans in need

The Ministry has two goals for its housing operations: to reduce costs; and to ensure that Albertans in need are housed. There are no measures established for the second goal concerning the provision of social housing to Albertans in need.

Funding for management bodies should be linked to commitments towards Ministry goals

Measurable expectations for each management body towards housing Albertans in need could be determined as part of the budget process. Funding for the management bodies could thus be linked individually and collectively to commitments by the management bodies towards achieving the Ministry's housing goals.

Management body annual reporting should include a comparison between actual results and stated expectations

Opportunities to include a comparison of measured performance with measured expectations in the notes to the audited financial statements of individual management bodies should be examined. Extending the auditor's opinion to the performance measures will add credibility to the measures and make them more reliable for evaluating management body performance. Additionally, the collective performance of all management bodies towards housing those in need could be used as a measure of the performance of the Ministry as a whole towards meeting its goals.

Alberta Social Housing Corporation
year ended March 31, 1998**Excessive Rent Subsidies**

In the 1996-97 annual report (page 178), it was recommended that the Alberta Social Housing Corporation not subsidize private sector housing units that are significantly more expensive than the average rents in the vicinity of the subsidized units.

I am pleased to report that the Corporation agrees with the recommendation and has eliminated some expensive units from its private sector housing portfolio. The Corporation has had difficulty eliminating expensive units as low vacancy rates have made landlords less willing to participate in the subsidy program. The Corporation is reluctant to eliminate the expensive subsidy units when replacement units are not available.

However, the Corporation has been successful in keeping the rents on the expensive units steady in the face of overall rent increases in the vicinity of the units, making the units comparatively less expensive.

I will continue to monitor the Corporation's progress in controlling the costs of its private sector housing units.

Other entities

Financial audits of the following were also completed for the year ended December 31, 1997:

Improvement District Nos. 9, 12, 13 and 24
Special Areas Trust Account

Guidance to reader

The Ministry of Public Works, Supply and Services (PWSS) is a central agency responsible for providing capital infrastructure, accommodation, information technology, procurement and disposal, air transportation, and records management services to support government program delivery. The mission of the Ministry, as described in *Budget '98*, is "to facilitate government program delivery by providing quality, cost effective common services and professional expertise."

The Ministry of PWSS is comprised of the Department of PWSS and the PWSS Revolving Fund. The Revolving Fund complements the Department, providing central computing, telecommunications and air transportation services to other government users on a charge-back basis. In 1997-98, the revenues of the Ministry were approximately \$55 million and expenses were approximately \$490 million. The Ministry employs approximately 1,100 full-time staff and is responsible for the management of a significant portion of the Province's capital assets. At March 31, 1998, the approximate cost and net book value of PWSS capital assets used in providing government services were:

	<u>Cost</u>	<u>Net Book Value</u> (millions)
Buildings	\$1,730	\$1,120
Land	\$560	\$560
Equipment and other	\$140	\$50
Aircraft	\$40	\$30

As a central supply agency, the outputs of the Ministry are inputs to other Ministries in producing the ultimate outputs of the government. The Ministry is working to develop performance measures and benchmarks to demonstrate whether its services provide value-for-money. Our observations and recommendation relating to PWSS performance measures are reported later in this section.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Public Works, Supply and Services for the year ended March 31, 1998. My auditor's report contained a

reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Department of Public Works, Supply and Services year ended March 31, 1998

Scope of Audit Work

In addition to the annual financial audit, the following work was completed:

- A review of the systems used by PWSS to measure and report the quality and cost-effectiveness of its services.
- A review of costs incurred by PWSS on behalf of other ministries to determine appropriate methods for recording these amounts in the financial statements of the entity responsible for the program to which the costs relate. Because the issue of cost allocation applies to all entities which provide and receive such services, the results of this work are reported in the Treasury section of this Annual Report (page 208).
- Specified audit procedures on the performance measures reported in the Department's annual report.
- A review of the Department's plans to address the risk of its systems not being Year 2000 compliant.

Performance Measures

Recommendation No. 38

It is recommended that the Ministry of Public Works, Supply and Services improve its reporting of performance measures to better demonstrate its cost-effectiveness.

As a central supply agency, the outputs of the Ministry, such as accommodations, capital projects, and information technology services, are primarily inputs to other Ministries. PWSS must therefore continue to demonstrate to the government and the public that it provides value-for-money in terms of the cost and quality of its services. The Ministry has developed significant expertise and resources in its

traditional areas of business. PWSS provides government users the opportunity to acquire quality products and services, while realizing potential cost savings through economies of scale. Performance measures provide an important opportunity to communicate the efficiency and quality of these services in relation to competing sources of supply.

For the 1997-98 business planning and reporting cycle, only two of the Ministry's performance measures focus on cost-effectiveness (i.e. operating costs in owned space and administrative costs as a proportion of procurement services costs). These two measures alone do not effectively communicate the scope of the Ministry's performance.

The three largest areas of PWSS operations in terms of expenditures are capital projects, property management, and information technology services. While measures of client satisfaction in these areas are important, performance measures should also emphasize cost-effectiveness. The Ministry currently uses efficiency measures to manage its business. It may be appropriate to incorporate these or similar measures into performance reporting. For example, measures PWSS may wish to consider reporting are:

- capital project administrative costs per square metre of constructed space, or per \$1 million of construction,
- operating costs in leased space,
- property management costs per square metre for contracted property managers compared with costs for property managed by directly by PWSS,
- a computer processing services price index, using a historical base for comparison,
- Alberta Government Network voice and data telecommunications costs compared to the costs of equivalent services without using a dedicated network.

Where possible, PWSS should also attempt to report industry standards, or benchmarks, for each measure. The use of benchmarks is important in setting proper targets for internal management purposes, as well as providing external accountability which demonstrates PWSS as a leader in cost-effectiveness.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1998.

Guidance to reader

The Ministry of Science, Research and Information Technology comprises two agencies, the Alberta Science and Research Authority (ASRA) and the Alberta Research Council, as well as the Science and Research Fund and the Office of the Minister. The consolidated expenses of the Ministry are \$52.8 million.

The main objectives of ASRA are to stimulate science and research, and to encourage a strong economy through developing policies and priorities for science and research that more effectively utilize the Government's investment in this sector. One of the main activities ASRA uses to achieve these objectives is to conduct an annual review of all government science and research policies, priorities and programs and their compatibility with the economic and social policies and priorities of the government. My staff are currently planning an examination of ASRA's system to conduct the annual review.

Alberta Research Council undertakes technology development and commercialization in co-operation with the private sector. Alberta Research Council has seven key market sectors for research activities: agriculture, biotechnology, energy, environment, forestry, information technologies and manufacturing. Alberta Research Council is implementing a methodology to measure, develop and protect its human resource competencies and the value of its intellectual capital. By increasing its capabilities in these areas, Alberta Research Council hopes to create new business opportunities for private sector companies in Alberta, thereby increasing its private sector revenue sources.

The Science and Research Fund commenced operations on April 1, 1997. Its purpose is to stimulate research and development and related scientific activities in Alberta through government grants. The activities include infrastructure development and transformation of technology.

The Alberta Science, Research and Technology Act was passed on March 26, 1998. The Act will come into force on proclamation, which is not expected until April 1, 1999. The Act will continue the Alberta Research Council as the Alberta Science, Research and Technology Authority and

will dissolve the Alberta Science and Research Authority and the Science and Research Fund. The pending legislation, as well as an internal review of the Alberta Research Council, will result in changes to the governance structure of Alberta Research Council.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Science, Research and Information Technology for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Alberta Science and Research Authority year ended March 31, 1998

In addition to the annual financial audit of Alberta Science and Research Authority (ASRA), which resulted in the reservations described above, my staff completed a report on specified audit procedures on performance measures for ASRA, and provided comments to management on how the measures can be improved.

Alberta Research Council year ended March 31, 1998

I conducted an audit of the financial statements of the Alberta Research Council for the year ended March 31, 1998. My auditor's report contained a reservation of opinion because the financial statements omitted significant costs paid on the Council's behalf by other entities.

**Constitution of the Board of
Directors**

In my previous report (page 185), I recommended that the Minister responsible for Science, Research and Information Technology request the Lieutenant Governor in Council to appoint members to the board of directors of the Alberta Research Council as required by the Alberta Research Council Act.

Alberta Research Council has informed me that no board appointments or reappointments will likely occur until the proclamation of the Alberta Science, Research and Information Technology Act

Other entities

Financial audits of the following were completed for the year ended March 31, 1998:

Alberta Foundation for Health Research
Alberta Heritage Foundation for Medical
Research

In addition, my auditor's report for the financial audit for the year ended March 31, 1998 of **Science and Research Fund** contained a reservation of opinion. The auditor's report itself should be read for the full details of the reason for the reservation.

Guidance to reader

The Ministry of Transportation and Utilities comprises the following entities:

- the Department of Transportation and Utilities
- Transportation Revolving Fund
- Gas Alberta Operating Fund

The mission of the Ministry is to contribute to Alberta's prosperity and economic development by ensuring the provision of:

- an effective transportation system;
- essential utility services to rural areas; and
- disaster and emergency services.

During the 1997-98 fiscal year, the Ministry's program expenditures were approximately \$677 million (1996-97 - \$609 million) and capital expenditures were approximately \$148 million (1996-97 - \$117 million). The majority of these expenditures were used to fund the construction and operation of transportation systems in the Province.

The Ministry is responsible for the maintenance and construction of transportation systems in the Province

The Province has approximately 15,000 kilometers of primary highways; 15,000 kilometers of secondary highways; and 130,000 kilometers of local roads. The Ministry is responsible for the construction and maintenance of primary highways, with the exception of primary highways through most cities, where the Ministry provides grants to municipalities for the required improvements. The Ministry also provides financial assistance for the construction of secondary highways and local roads in rural areas.

The Ministry must use its resources effectively and efficiently to ensure Alberta's transportation infrastructure continues to meet the needs of users at the lowest possible cost to the Province

The rapid increase in road use as the Alberta economy expands presents a major challenge for the Ministry. To maintain Alberta's transportation infrastructure at an acceptable standard, the limited resources of the Ministry have to be used effectively and efficiently. The Ministry, therefore, must ensure that existing roads are adequately maintained to avoid the need for premature rehabilitation and that the construction of new roads meets the expanding user requirements. Poor quality and inadequate transportation

systems increase highway maintenance costs as well as operating costs for users.

The Ministry is implementing a system to assist with identifying Province wide needs and priorities for maintaining and constructing highways and bridges

In 1996-97, the Ministry commenced work on its plan to establish a transportation infrastructure management system. This system will assist the Ministry in identifying Province wide needs and priorities for maintenance and construction of highways and bridges. The successful implementation and use of this system will be critical to the success of the Ministry in future years. Accordingly, I followed up on my prior year's recommendation with respect to identifying the risks, costs and benefits of the Infrastructure Management System.

The Year 2000 problem may affect the public safety of Albertans

The Year 2000 problem presents a risk to the operations of businesses, organizations and government. There is a risk that this problem may also affect public safety. As the Minister of Transportation and Utilities has oversight responsibility for the disaster services of the Province, I reviewed the plans of the Disaster Services Branch with respect to the Year 2000 problem.

The Ministry is responsible for the restoration of gravel pit and fuel tank sites

Under Provincial legislation, the Ministry is responsible for the reclamation of gravel pit and fuel tank sites that are located on land owned by the Ministry. The Ministry has many sites that must be restored and there are significant liabilities relating to the reclamation of these sites. As part of the annual financial statement audit of the Ministry, I have reviewed the Ministry's estimate of its liability for site restoration costs.

The Ministry, on behalf of the Province, has recently signed an agreement to lease all vehicles required for its operations from a private firm. In the next year, I will review the process for arriving at the decision to outsource the fleet and the ongoing management of the lease agreement. I will also review the accounting treatment for the lease.

Ministry and Department Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Transportation and Utilities for the year ended March 31, 1998. My auditor's reports contained a reservation of opinion. The auditor's reports should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Department of Transportation and Utilities
year ended March 31, 1998**Scope of Audit Work**

In addition to the annual financial audit, which resulted in the reservation described above, the following work was completed:

- A follow-up of my prior year's recommendation relating to the transportation infrastructure management system.
- A review of the plans of the Disaster Services Branch with respect to addressing the risks to public safety arising from the Year 2000 computer problem.
- A review of the Department's plans to address the risk of its information systems not being Year 2000 compliant.
- Application of specified audit procedures to key performance measures included in the Ministry's 1997-98 annual report.

Infrastructure Management System**Background**

In April 1996, the Department commenced development of the Infrastructure Management System (IMS) to assist in its management of the construction and maintenance of roads and bridges in the Province. This system will replace approximately 34 separate systems that are being used for this purpose.

IMS is a leading edge Internet based system that is being developed on a modular basis. There are seven modules to be developed and implemented before the complete benefits of the system will be achieved. It is expected that implementation of the final module will be completed in February 2000. The costs of developing the system are estimated at \$15 million; total development and maintenance costs over the 10-year life of the system are expected to be \$26 million.

The Department has recently completed release one of IMS. This release, which is the foundation for future releases, encompasses the Data Repository and Geographical Information System modules. To date, the Department has spent approximately \$3.5 million on the development of the system.

IMS Cost-Benefit Analysis

Recommendation No. 39

It is recommended that the Department of Transportation and Utilities integrate the Infrastructure Management System cost-benefit analysis into the project management process.

In my prior year's annual report (page 191), I recommended that the Department identify the business risks it faces in managing the Alberta transportation infrastructure and evaluate the cost-benefit of the proposed Infrastructure Management System. In addition, I recommended that the scope of the new system be defined based on the informational needs of users. The Department accepted this recommendation and committed to undertake a cost-benefit analysis of IMS.

The Department has identified the scope, risks, costs and benefits of IMS

In the past year, the Department has made progress in identifying the system's scope, risks, costs and benefits. I found that the scope of the project was further defined in the Functional Specifications Report prepared in July 1997, which provided the basis for the IMS project. The Department has also prepared a high-level cost-benefit analysis that includes a summary of the significant risks facing the Department in managing transportation infrastructure and an analysis of the expected costs and benefits of the system over a ten-year period.

The cost-benefit analysis should be updated based on the actual cost-benefits realized through the implementation of release one

The cost-benefit analysis clearly demonstrates the feasibility of proceeding with the IMS project. However, my review of the project management process to date indicated that the IMS cost-benefit analysis has not been well integrated into the process. Presently, this analysis is not being used to manage the project and has not been updated based on current information. To obtain a current overview of the project, the Department should update the cost-benefit analysis based on the actual costs and benefits that have been realized through the implementation of release one. This information would provide a sound basis for revising or confirming the original cost-benefit analysis and the project budget.

The cost-benefit analysis should be updated and evaluated on a periodic basis

On an on-going basis, an updated cost-benefit analysis should be prepared as part of the analysis phase of each new release, prior to the design and implementation of the release. This updated analysis would provide the basis for the annual project budget. Furthermore, at the end of each module completion actual costs and benefits should be evaluated in comparison to the cost-benefit projections.

The cost-benefit analysis could be a valuable management tool

This evaluation will provide a basis to determine possible financial impacts on the next module implementation. Additionally, continuing costs should be reviewed to ensure the assessment remains accurate and that costs will remain consistent for the next module. If periodic evaluation of the cost-benefit analysis were completed, the cost-benefit analysis would progress from a theoretical exercise to a valuable management tool.

The Department has recently indicated that the cost-benefit analysis will be updated based on the results of IMS release one. They have also agreed to integrate the analysis into the ongoing project management process.

Disaster Services

Background

Within the Province of Alberta, the Minister of Transportation and Utilities has primary responsibility for disaster services

The legislative responsibility for disaster services is shared by all levels of government. In the Province of Alberta, primary responsibility lies with the Minister of Transportation and Utilities, who has been delegated responsibility for the Disaster Services Act. Under this Act, the Minister has many powers and oversight responsibilities relating to ensuring the emergency preparedness of the Province. The Minister may also provide financial assistance to individuals, municipalities, businesses and other organizations when a disaster has caused widespread damage to property, and the cause of the disaster was extraordinary.

The Disaster Services Branch is responsible for Provincial emergency preparedness

The Disaster Services Branch of the Department of Transportation and Utilities is responsible for preparing, implementing and managing a program of emergency preparedness for Alberta, including the coordination of the government response to emergencies. The Branch is also required to promote and coordinate the preparation and maintenance of emergency plans of local authorities and Provincial government departments.

Departments are responsible for preparing and maintaining their own emergency and business resumption plans. They are also required to assist local authorities with the preparation of plans and provide staff for the execution of the Province's emergency response efforts.

Municipalities are responsible for responding to a disaster unless a state of emergency is declared

The local authority of each municipality is responsible for the direction and control of emergency response to a disaster, unless the government assumes direction and control by declaring a state of emergency. If a state of emergency is declared by the Lieutenant Governor in Council, the Minister may take all action necessary including implementing a Provincial emergency plan or program.

Planning for Year 2000

Recommendation No. 40

It is recommended that the Disaster Services Branch of the Department of Transportation and Utilities assess the potential risks to public safety arising from the Year 2000 computer problem and take action to satisfy itself that any necessary emergency preparedness measures are established.

The Year 2000 problem may present a risk to the safety of Albertans

The Year 2000 computer problem may affect the delivery of essential services such as power, gas, and telephone. This risk arises because many types of equipment responsible for the delivery of these services are dependent upon date sensitive systems. In order for these systems to continue operating safely, they must be Year 2000 compliant. The failure of equipment responsible for delivery of essential services to Albertans may pose a risk to public safety.

The Minister and the Disaster Services Branch need to assess the risk to public safety and ensure that a plan is in place to address the risks

The Minister and the Disaster Services Branch have a responsibility to assess this risk to public safety and ensure that a plan is in place to address the risks. It is acknowledged that the primary responsibility for the safe operation of utility equipment rests with the utility companies. I am also aware that local authorities are responsible for responding to disasters within municipalities. However, the Branch may be asked to respond or assist with the emergency response to a disaster. Thus, it is important that the Minister and the Branch play an active role to ensure the Province is prepared to respond in case of a disaster arising from the Year 2000 problem.

The Branch is taking a proactive approach in educating stakeholders on the impact of the Year 2000 problem

The Disaster Services Branch has recognized the importance of the Year 2000 problem and the risk to public safety. The Branch is taking a proactive approach in educating municipalities and regional health authorities on the potential impact of Year 2000, and the need for a contingency plan. Branch staff have made presentations on the Year 2000 issue to many organizations, including federal agencies, and have included information on the problem on the Branch web-site.

The Branch has some assurance that key stakeholders are aware of the Year 2000 problem but needs further information to assess the risk to public safety

While these education and awareness activities provide some assurance that key stakeholders are aware of the Year 2000 problem, the Branch requires further information to determine the potential impact of the year 2000 on public safety. The Branch is aware that the Year 2000 compliance of systems operated by utility companies is critical to prevent a disaster and I have been advised that the readiness of these companies will be determined at a future date. However, the Branch has not completed a formal assessment of the risks.

In my view, a more thorough assessment of the risks that will affect all areas of the Province is necessary. An assessment of the risks should include identification of:

A more thorough assessment of risks is required

- Provincial and national systems that may not be Year 2000 compliant by January 1, 2000; and
- Municipalities that may not have adequate plans in place to address the Year 2000 problem and therefore, may require assistance to respond to a disaster.

A contingency plan should be prepared

In addition, the Branch should prepare a contingency plan to address the emergency preparedness consequences arising from these risks. This plan should identify the required emergency preparedness measures and resources necessary to address the risks. A contingency plan would provide assurance that the Province is prepared, as much as possible, in case of a disaster arising as a result of the Year 2000 problem.

The Branch has agreed to establish emergency preparedness measures and will coordinate with other stakeholders to develop the necessary plans

The Branch has recently indicated that it will prepare a comprehensive risk assessment and the plans necessary to address the emergency preparedness consequences arising from the Year 2000 computer problem. The Branch has indicated that it will coordinate its efforts with Emergency Preparedness Canada, the CIO, other departments and municipalities. This coordinated approach will assist the Branch in identifying all risks, developing an efficient and effective plan to address these risks, and preparing a Provincial contingency plan.

Site Restoration

Background

The Department is responsible for restoration of gravel pit and fuel tank sites

Under Provincial environmental legislation, the Department of Transportation and Utilities is responsible for reclamation of gravel pit and underground petroleum storage tank sites which are located on land owned by the Department. This legislation determines the extent of the required reclamation and the process for approving the restoration work.

The Department undertakes site restoration work at the request of landowners and records the related expense in the period the work is performed

The Department has over 1000 gravel pit sites and over 30 fuel tank sites that must be restored to comply with legislative requirements. Site restoration work, approximately \$1 million annually, is undertaken by the Department at the request of private landowners or regional staff. Currently, the Department reports the costs of reclaiming gravel pit and fuel tank sites in the period in which the restoration work is performed rather than in the periods in which the liabilities arise.

The Department should work with Alberta Treasury to develop an accounting policy for the treatment of site restoration costs and liabilities that is in accordance with generally accepted accounting principles

This accounting treatment, which is not in accordance with generally accepted accounting principles, is based on Alberta Treasury accounting policies. In my view, the Department should estimate the cost and record the liability for site restoration when the gravel is excavated and when the fuel tank sites are acquired. The estimate of the liability should be refined each year, as the extent of required restoration work becomes known. I encourage the Department to work with Alberta Treasury to adopt an accounting policy for the treatment of site restoration costs and liabilities that is in accordance with generally accepted accounting principles.

Estimating Site Restoration Costs

It is recommended that the Department of Transportation and Utilities estimate the cost of site restoration work required to comply with environmental legislation.

Currently, the Department does not have a reliable estimate of the site restoration costs that will be required to reclaim its gravel pit and fuel tank sites. Therefore, management does not have adequate information to plan for the reclamation of these sites on a systematic basis.

A reliable estimate of the cost to complete the restoration of gravel pit sites cannot be determined at this time

The estimate that I was provided by the Department for the cost of gravel pit site restoration was \$25 million. However, the Department acknowledges that the actual cost of gravel pit reclamation may vary between \$5 million and \$104 million. Factors causing this uncertainty include: the accuracy of inventory records, the extent of progressive reclamation during pit operations and the potential for sharing costs with municipalities. The Department should determine a more accurate estimate of the liability for site restoration costs by ensuring that its inventory records are accurate and all relevant factors are assessed.

The Department's estimate of fuel tank site restoration costs may vary significantly

The Department's estimate for fuel tank site restoration costs may also vary significantly. The process for estimating these reclamation costs involves many phases of site assessment and testing. Consequently, it may take several years for the Department to complete an assessment of a site and determine an accurate estimate of the cost to complete the required site restoration work. Currently, most of the fuel tank sites are at various stages of the assessment cycle process. The accuracy of the estimated costs will improve as each site progresses through the assessment cycle.

The Department needs an estimate of site restoration costs for budgeting and planning purposes

In my view, it is important that the Department improve its processes for estimating site restoration costs to enhance the information available to management for budgeting and planning purposes. I believe that the cost, and related liability, of the required site restoration work is significant. Therefore the Department should establish the appropriate processes and take the steps necessary to determine a reasonable estimate of the site restoration costs required to comply with the relevant environmental legislation.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1998:

Gas Alberta Operating Fund, and Transportation Revolving Fund

Guidance to Reader*Services provided by the
Ministry*

The Ministry provides financial and administrative services within government and externally through the Treasury Department and a number of Provincial agencies such as Alberta Treasury Branches, Alberta Municipal Financing Corporation, Alberta Pensions Administration Corporation, and the Credit Union Deposit Guarantee Corporation. In addition, the Department is responsible for the administration of a number of funds, the most significant of which is the Alberta Heritage Savings Trust Fund.

Ministry goals

The following goals are set out in the Ministry's 1997-2000 business plan:

1. To keep the Province's finances in order.
2. To ensure government is accountable to Albertans for its business plan and finances.
3. To ensure a fair, competitive, simple and efficient provincial tax revenue system.
4. To maximize investment returns and minimize borrowing costs subject to acceptable risk.
5. To ensure an efficient, fair and competitive capital market and regulatory environment for financial institutions.
6. To deliver quality financial services to Albertans through Alberta Treasury Branches, Alberta Municipal Financing Corporation and Alberta Pensions Administration Corporation.

This year I have focused particularly on risks associated with four of the goals of the Ministry.

*Risks associated with first
two goals*

Risks associated with the first two goals include business decisions being made based on incomplete and/or incorrect financial information. For example, this can arise because inappropriate accounting standards or practices are used. A consequence of this could be either additional costs to the Province or foregone revenue, because business decisions were made with incomplete financial information. Also, as a result, performance measurement may not be adequate. This

Ministry section of my report contains observations and recommendations where improvement can be made, for example, by including all costs in each reporting entity and by reporting on the complete reporting entity.

*Risks associated with
fourth goal*

There are risks related to managing the Province's investment returns and borrowing costs, the fourth goal.

At March 31, 1998, the Province's consolidated financial statements reported financial assets of approximately \$20 billion, pension obligations of about \$5 billion and other liabilities of \$21 billion. Effective management of the Province's financial assets or liabilities is critical to the Province's bottom line. For example, earning one percent less in return on financial assets alone would equate to about \$200 million less in income annually. To maintain focus on that risk, my report contains a recommendation to the Department to develop a business plan for the effective management of investment services.

*Risks associated with sixth
goal*

Concerning risks related to the sixth goal of providing financial services, I have focused on Alberta Treasury Branches with recommendations for improvement, such as in the management of loans.

Summary of following sections

This summary is provided to assist the reader:

- Ministry and departmental financial statements (page 205)
 - Basis of accounting
 - Assets, liabilities, revenues and expenses
 - Reporting entity
 - Cost allocation
 - Strategies to improve year end reporting
- Consolidated financial statements of the Province (page 213)
 - Improvements in the past year
 - Future improvement
- General Revenue Fund (page 216)
- Crown-controlled organizations (page 216)

- Ministry of Treasury financial statements (page 216)
- Department of Treasury (page 217)
 - Consolidated budget and quarterly reports
 - Revolving funds
 - Financial assets and liabilities
- Alberta Treasury Branches (page 221)
 - Board governance
 - Business risks
 - Connected accounts
 - Unclaimed customer balances
 - On-going audit work
- Provincial trust funds (page 226)
- Other entities (page 226).

Ministry and Departmental Financial Statements

Basis of Accounting

The second goal of the Ministry of Treasury is to ensure government is accountable to Albertans for its business plan and finances.

Fundamental changes are occurring in the financial management of government

The Department is charged with overall responsibility for the financial management of the government and the responsibility to set government accounting policies. In ministries, ministers and deputy ministers are responsible for detailed financial controls and financial performance, including reporting.

Need for ministry and departmental financial statements

Ministry accountability requirements are spelled out in the Government Accountability Act (GAA). Section 14 of the GAA states that ministry annual reports must include ministry consolidated financial statements and financial statements of each of the components of the ministry, including departmental financial statements. Section 14 came into force in January 1998, impacting the 1997-98 fiscal year.

Fiscal year reporting deadline is June 30

The GAA requires that the Provincial Treasurer release the Provincial consolidated financial statements by June 30 of each year. Beginning in 1997-98, the Provincial consolidated financial statements were prepared using ministry consolidated financial statements. This means that

all ministry consolidated financial statements and financial statements of all components of each ministry were to be completed by May 22, 1998 in order to meet the Section 10 deadline of June 30.

Reservations in auditor's reports

Recommendation No. 41

It is recommended that the Treasury Department management initiate changes to the corporate government accounting policies in order to eliminate the reservations in auditor's reports on department and ministry financial statements.

There are reservations in the auditor's reports on the 1997-98 financial statements of all of the ministries and all of the departments. The accounting standard I have used to assess whether these financial statements are presented fairly is GAAP (Generally Accepted Accounting Principles). The nature of the reservations is described in more detail in the following paragraphs.

Assets, liabilities, revenues and expenses

Firstly, ministry and departmental financial statements should include all assets, liabilities, revenues and expenses that relate to the ministry and department.

Currently, certain liabilities such as pension liabilities and long-term disability benefits are not allocated to the departments whose service delivery activities gave rise to the obligations. All of the auditor's reports on the ministry and department financial statements contained reservations about pensions and most contained reservations about disability benefits. Of particular note is the Teachers' Pension Plan liability and expense which are incorrectly recorded in the Treasury Ministry rather than in the Education Ministry. The liability of that plan was \$3.8 billion at March 31, 1998 and the 1997-98 expense was about \$200 million.

In addition, some valuation adjustments and certain administrative expenses, principally accommodation costs incurred by the PWSS Department, are not allocated to individual departments. The total of such annual expenses is about \$150 million. Almost all of the auditor's reports on the ministry and department financial statements contained reservations on these matters.

Further, the impact of inventories, prepaid expenses and capital leases is not recorded and the minimum value threshold to capitalize assets may need to be refined. On these matters, I have two specific areas for comment. I had reservations on two ministry and department financial statements because grants for 1998-99 benefits to individuals totalling about \$40 million were paid in 1997-98 and were incorrectly recorded as expenses in 1997-98. In addition, there was a reservation on another ministry's financial statements because grants to organizations of about \$2 million were incorrectly recorded as expenses in 1996-97, rather than 1997-98. Further, the application of a government-wide minimum value threshold to capitalize assets resulted in reservations on several ministry and department financial statements. In total, this issue of asset addition identification resulted in a government-wide understatement of capital assets of about \$30 million in the 1997-98 fiscal year.

There were other reservations on ministries' financial statements. In one instance, there were unrecorded claims liabilities of about \$13 million at March 31, 1998. In another instance, 1997-98 expenses were overstated by about \$18 million, being expenses of prior periods.

The purpose of these reservations is to maintain a focus on recording all the assets, liabilities, etc. to permit full costing for financial reporting purposes. But, in addition, the key to good business operating decisions has to be full costing for each government unit whether it be a fund, agency, department or ministry. After all, at the ministry level for example, the Minister is truly responsible for all assets consumed and expenses incurred by that ministry.

Reporting entity

*The reporting entity
should be expanded*

Secondly, not all appropriate entities have been included in some reporting entities. For example, I believe that regional health authorities, universities and colleges, and school boards should be consolidated respectively in the Ministries of Health, Advanced Education, and Education financial statements, as well as in the consolidated financial statements of the Province. This matter is also discussed in greater detail in the sections on the Ministries of Advanced Education and Career Development (page 43), Education (page 83), Health (page 154), Labour (page 170) and Municipal Affairs (page 180).

For 1997-98 there were reservations on this matter in my auditor's report on the financial statements of five ministries.

This matter is also discussed earlier in section 1 (page 7) and later in the section dealing with the Province's consolidated financial statements (page 215).

Cost Allocation

One of the matters discussed above giving rise to reservations in auditor's reports was the failure to include all costs in an organization's financial statements. As this will be one of the more difficult matters to resolve, I have identified the following issues that need to be addressed.

Exclusion of costs for services provided by other ministries misstates reported results

Various ministries provide goods and services without charge to other ministries. Examples include accommodation and telecommunication services provided by the Department of Public Works, Supply and Services (PWSS), legal services provided by the Department of Justice, and policy and planning analysis provided by the Department of Treasury. To the extent that the provider contributes these goods and services without charge, the associated costs are excluded from the reported costs of the recipient. Therefore, because the recipient's reported costs do not include the full costs of program delivery, I have qualified my auditor's opinion on the financial statements of entities whose excluded costs are estimated to be material.

A recommendation to allocate costs was made 3 years ago

In the 1994-95 annual report (page 54), it was recommended that the Province develop systems to allocate all costs that are material to the organizations responsible for producing outputs. This recommendation was accepted. At that time, ministries were largely unaware of the cost of services which other ministries were providing to them and therefore did not know the full cost of their programs.

Information to support cost allocation initiatives has improved

Since that report was issued, significant steps have been taken to improve costing information. For example, PWSS now provides all departments and government agencies with information on the cost of accommodation space it owns and leases on their behalf. The government has also established an inter-ministerial committee to review the issue of cost allocation. This committee has developed a draft framework which identifies the types of costs which should be allocated and how allocations should be determined. Other work in this area includes a research study by the Canadian Institute

of Chartered Accountants, expected to be completed later this year.

Cost allocation policies do not yet exist

However, while some steps have been taken, I am concerned that these costs are not yet included in the determination of full program costs for the entities receiving the services. I believe it is important to review why costs should be allocated and to discuss the major outstanding issues to be resolved in cost allocation and reporting.

Allocation of significant costs

Recommendation No. 42

It is recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.

Business case for cost allocation

Knowledge of full costs improves decision-making and accountability

Reporting the full cost of services provided by each ministry increases accountability by disclosing the total resources consumed to produce program outputs. Understanding the components of full costs allows ministries to take action to better manage these costs. Knowing full costs permits governing bodies and the public to assess the true cost of services in relation to the results achieved, thereby improving resource allocation decisions. Full costing also allows ministries to compare their performance with other entities within and outside the government reporting entity.

Cost allocation methods

Costs should be allocated if they are significant to the entity receiving services

Entities that provide public services, including organizations such as post-secondary institutions, should be allocated all costs that are significant to their operations. In determining whether allocable costs are significant, a single government-wide threshold is not appropriate since each entity must evaluate these costs in relation to the scope of its operations.

Cost allocation methods should provide incentives which promote cost effectiveness

The method of cost allocation (i.e. the transfer price) should be appropriate to the service being provided. The method selected should also provide motivation to improve cost-effectiveness. In general, this is done by disclosing the nature of the costs and the basis on which they have been allocated, to permit recipients to challenge the value

received. Recipients should be encouraged to take a comprehensive view of their operations, including not only costs they incur directly but also costs allocated to them by others. Appropriate incentives should be in place such that initiatives by recipients to generate savings in allocated costs can be applied in part towards preserving or enhancing the recipient's own budget.

Negotiated service agreements can promote efficiency and responsibility

There are various methods by which costs can be allocated. For example, a service agreement can be negotiated between the provider and recipient prescribing the costs to be allocated. Although the long term objective of the service agreement method is full cost allocation, the service provider's costs may be over or under-allocated in any one year if its actual costs are greater or less than the negotiated price. In essence, this method emulates the concept of a revolving fund, while recognizing that recipients should not have to bear the cost of a provider's inefficiencies. This method may be most appropriate where users are permitted to choose whether or not to use the provider's services. The primary advantage of this method is that it applies the pressures of competition on the provider, helping to ensure services are cost-effective. It also imposes discipline on the recipient, since the service agreement obligations may continue even though the recipient changes its program requirements.

If actual costs are allocated, efficiency must be demonstrated through performance measures

Alternatively, the actual costs incurred by the service provider during the fiscal period can be allocated to users based on their respective utilization of services. This method may be most appropriate where users are not permitted to choose whether or not to use the provider's services. In these cases, the absence of choice creates a need for the service provider to produce performance measures which demonstrate its services are cost-effective. The primary advantage of this method is that costs are fully allocated in each fiscal period. It may also be less costly to administer than negotiated service agreements.

Cost allocation does not require elaborate and costly charge-back systems

Regardless of the method(s) chosen, policies should focus on the simplicity of application and the value of information in relation to the effort required to allocate costs. Elaborate and costly billing/payment systems are not necessary because the flexibility of government accounting systems permits transfers without a physical exchange of funds. The frequency and timing of allocations will depend on the particular circumstances of the service being provided, but should occur at least quarterly to coincide with interim financial statement preparation.

Reporting allocated costs

"Contribution accounting" recognizes the value of services provided to the recipient

The service recipient should recognize the complete cost of contributed goods and services as expenses in the relevant period. At present, this is not done. However, certain costs, primarily accommodation, are currently disclosed in the notes of the recipient's financial statements. The recipient should also recognize imputed revenue equal to these complete costs, representing contributions from service providers. This "contribution accounting" recognizes that, although the recipient did not actually receive revenue and purchase the goods and services, in substance this is what occurred.

Cost allocation would not significantly affect the service provider's financial statements

The service provider's financial statements will remain essentially unchanged, since it is important for the provider to report the full cost of its services to maintain proper accountability. Transferring all costs to a recipient ministry, or reporting costs net of service revenue, would not provide adequate information to evaluate the provider. Financial statement note disclosure could show the costs allocated to users.

Budgeting for allocated costs should not be a significant concern

There is a concern that the recipient will not have budgetary authority for allocated costs, since this rests with the provider who actually pays these costs. However, I believe this concern is overstated. For example, the adaptability of the legislative process in budgeting for non-cash expenses has been previously demonstrated in approving the estimates for amortization of capital assets. Moreover, any double-counting of expenses in the provider and recipient financial statements would be eliminated in preparing the consolidated financial statements of the Province.

Issues requiring further study

As allocation policies evolve, consideration should be given to the potential benefits and appropriate mechanisms for allocation of:

- the net book value of capital assets currently owned by central agencies such as the Department of Public Works, Supply and Services, and
- the cost of capital, based on the assets employed by individual entities in delivering services.

Additional aspects of allocation require further study

Strategies to improve year-end reporting

Unnecessary time and effort is consumed because initial information is not accurate and timely

I will continue to monitor developments in these areas, both in the Alberta government and in other jurisdictions.

Recommendation No. 43

It is recommended that the Department of Treasury develop strategies to improve year-end reporting processes for ministries and their agencies.

I am pleased to acknowledge the success of the Treasury Ministry in meeting the deadlines for 1997-98.

Concerning the ability of other ministries to provide the Treasury Ministry with year end information and effect their own year-end financial closes, the evidence of 1997-98 and recent years shows that good financial management practices have not always been applied during the year. At the year end there is a significant volume of adjustments, estimated in the hundreds, requested and made during the year-end accounting process. In addition, some ministries produce many draft financial statements prior to the final version. This means that unnecessary time and effort is consumed because initial information is not accurate and timely. Also, it would appear that financial information for year-end closing is an “add on” activity only relevant at year-end, rather than an essential integrated element of the ongoing business reporting process.

Financial records need to be complete and accurate throughout the year

Ministries need to apply good financial management practices and have sound systems, processes and competent staff to make sure that their financial records are complete and accurate throughout the year, rather than tending to review and prepare significantly all of their annual year-end financial information subsequent to the year-end. Financial records need to be closed off on a timely basis for each reporting period for each organization which is part of the ministry.

Good fundamental processes and systems are needed

Ideally, ongoing complete and accurate records are necessary for accurate monthly and quarterly reporting, and also to reduce the cost of administration. That ideal practice, of course, has to be supported by good fundamental systems and processes and solid plans to achieve deadlines. This will take some time to achieve, but there has to be a meaningful time plan to reach the ideal situation.

A priority would be to focus initially on public reporting of accrual-based interim quarterly results, as discussed in more detail later under “Consolidated Budget and Quarterly Reports”.

Consolidated Financial Statements of the Province year ended March 31, 1998

Volume 1 of the Public Accounts contains the Province's consolidated financial statements

The Province's consolidated financial statements are published in Volume 1 of the Public Accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed.

My report on the Province's 1997-98 consolidated statements is dated June 17, 1998

On June 17, 1998, I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1998, which are prepared on a disclosed basis of accounting. My auditor's report is reproduced on page 246 of this report.

**Improvements in the Past
Year**

The Department of Treasury continued to make significant improvements to accountability reporting in 1997-98, including the following:

- The change in accounting policy from the cash basis to the accrual basis of accounting for:
 - corporate income tax
 - freehold mineral rights tax
 - land rentals and fees, and
 - vehicle and operator licences.

As a result, all revenues are now on the accrual basis to reflect revenue when earned, rather than when cash is received.

- Inclusion of a statement of capital assets which identified the net book values of the general capital assets and infrastructure assets.
- New disclosure of uncertainty due to the Year 2000 issue.
- Further improved refinement in the presentation and disclosure of financial instruments, particularly the inclusion of information about risk management and terms to maturity.
- Inclusion of budget amounts in the relevant schedules to the financial statements to enable readers to compare the actual and budgeted amounts.

Future Improvement

The following recommendation identifies further improvement which could be made to the Province's consolidated financial statements.

**Basis of accounting for the
Province's consolidated
financial statements****Recommendation No. 44**

It is again recommended that the Province's consolidated financial statements be prepared in accordance with generally accepted accounting principles for the summary financial statements of a government.

I made the same recommendation in the 1996-97 annual report (page 206).

Reporting entity

The issue of the consolidated reporting entity continues to be the major area where the accounting for the Province's financial results, position and cash flows can be improved.

The reporting entity matter is discussed in more detail earlier in section 1 of this report (page 7), in this Ministry's section (page 207) and in more detail in the sections of the relevant ministries, namely, Advanced Education and Career Development (page 43), Education (page 83), Health (page 154), Labour (page 170) and Municipal Affairs (page 180). At this point, in summary, my view is that there is a need to include in the Province's consolidated reporting entity several entities which are presently excluded, such as, Provincially owned universities, colleges, technical institutes, regional health authorities and some management bodies and delegated administrative authorities. This matter is unresolved since it was first commented on in 1992-93. It is not the purpose of my recommendation to seek to introduce control that is not already present nor to have those entities behave differently. Rather, my goal is to have accounting applied as a tool to measure the totality of what is occurring. As a result, full accounting will assist each relevant ministry to manage the resources of each sector to its best advantage, without unnecessary interference in the operating decisions of the entities.

General Revenue Fund

The model for the Province's consolidated financial statements has changed

As a result of full implementation of the Government Accountability Act in 1997-98, there was a change in the Province's consolidation reporting model. Previously, the model comprised the financial statements of the General Revenue Fund and other funds and agencies. The new model comprises consolidated ministry financial statements, which include the department and related funds and agencies of the ministry.

Department financial statements are now used

In other words, the General Revenue Fund financial statements have been superseded by the financial statements of the individual departments.

Crown-controlled Organizations

The financial statements of the three Crown-controlled organizations are included in the Treasury Ministry's Annual Report 1997-98. Those organizations are Alberta Insurance Council, Chembiomed Ltd. and Gainers Inc..

Section 16 of the Auditor General Act provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

All information needed by the Auditor General has been supplied

I am pleased to report that all of the information which I required to properly fulfill my obligations concerning these organizations has been made available to me.

Ministry of Treasury Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Treasury for the year ended March 31, 1998. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 206 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Department of Treasury
year ended March 31, 1998**Scope of audit work**

In addition to the annual financial statements audit, the following work was completed:

- Review of the Department's human resource management plans for investment operations,
- Reporting on the results of applying specified auditing procedures to the Government's core performance measures in Measuring Up 1997-98,
- Reporting on the results of applying specified auditing procedures to the Ministry's key performance measures in the Treasury Annual Report 1997-98, and
- A review to identify impacts on the Ministry's operations if its information systems are not Year 2000 compliant.

Further, members of my staff, including Assistant Auditors General, Principals and Managers, have participated on advisory and working groups as follows:

- Department and ministry consolidated financial statements and ministry annual reports,
- new IMAGIS management and financial system, particularly the ministries' business unit consolidation model, and
- performance measures.

Our participation enabled the views of the Office to be shared with the members of the group as they progressed towards decisions.

I am pleased that our professional resources are being sought and used in this manner.

**Consolidated Budget and
Quarterly Reports**

*I had previously
recommended several
improvements in
budgeting which have
been implemented*

Over the past few years, this Office has made several recommendations, which have been implemented, to improve the government's accountability by establishing a meaningful "front-end" to the accountability cycle, namely, the consolidated budget process. I acknowledge that the government has made significant improvements to the budget and forecasting process in the past few years and, looking ahead, there will likely be further refinements to the process.

Quarterly reports**Recommendation No. 45**

It is again recommended that the Department of Treasury report the actual results to date for revenues, expenses and surplus on the accrual basis in the quarterly report's Consolidated Fiscal Summary.

I made the same recommendation in the 1996-97 annual report (page 212) and the government accepted it in principle.

The current cash basis of reporting the actual results to date is not comparable to the accrual basis used in the audited consolidated financial statements of the Province, nor to the Province's consolidated forecast amounts which are reported quarterly.

Users would find it useful to have the actual results to date on the same basis as the other reports in order to facilitate comparison and analysis.

I understand that the Department of Treasury is in the process of reviewing the implications and practical issues of implementing full accrual accounting, but I am unaware of a specific time frame for implementation.

Quarterly budgets

It is again recommended that when the Department of Treasury prepare the Province's annual consolidated budget, the planned financial results for each of the four quarters also be included.

I made the same recommendation in the 1996-97 annual report (page 213) and the Department accepted it in principle.

At present, the consolidated budget is only prepared on an annual basis. Quarterly budgeting would facilitate the comparison of the quarter's actual financial results in relation to the budget targets and so assist business decisions.

The Department's view is that significant progress is unlikely until IMAGIS is more fully implemented, but I am unaware of a specific time frame for implementation.

Revolving Funds

Revolving funds are not working as intended and are not necessary

In last year's annual report (page 214), it was noted that revolving funds are not working as intended and are not necessary. The government should be able to fully cost its programs and services without the expense of operating revolving funds.

The recommendation was accepted and significant progress made

This recommendation has been accepted and significant progress was made last year to reduce the number of revolving funds. Six of the eight revolving funds in existence at March 31, 1997 were wound up or ceased operations in 1997-98.

I understand that the ministries' management are planning to discontinue the two remaining revolving funds by March 31, 1999.

**Financial Assets and
Liabilities****Investment management
services****Recommendation No. 46**

It is recommended that the Department of Treasury develop a business plan for the Investment Management Division.

A similar recommendation was made last year

A similar recommendation was made in the 1996-97 annual report (page 218).

A business plan defines the objectives and core competencies and strategies of an organization

A business plan is an essential element of an accountability framework as it articulates the priorities of the organization and the expected outcomes. A business plan enables an organization to identify and communicate where it wants to be, how it plans to get there and the performance measures to assess the success of the organization. It includes defining the business strategies based on an assessment of the strengths and competencies of the organization.

Effective management of people involved in investment activities is critical to enable Treasury to achieve its business objectives

During the current year, I focused on the Department's human resource management plans for investment operations. Effective management of people involved in investment activities is critical to enable the Department to achieve its goal of maximizing investment return, subject to acceptable risk, through the efficient and prudent management of the financial assets of the Province and the assets of other funds invested by the Provincial Treasurer.

A business plan assists in the development of human resource plans that are consistent with established business objectives

Based on my review, I believe that the Department needs to develop a business plan for the Investment Management Division. A business plan that defines the goals, the products and services, and the appropriate business strategies based on the Division's strengths and competencies, will assist in the development of human resource plans that are consistent with established business objectives.

The recommendation was accepted

In the prior year, the Department accepted the recommendation and is currently developing a business plan which would clarify the Investment Management Division's role and responsibilities in the context of the Provincial Treasurer's responsibilities under the Financial Administration Act. The Division will also be available to provide assistance to provincial organizations in accessing appropriate investment services.

Alberta Treasury Branches year ended March 31, 1998

Board Governance

In March 1996, the Provincial Treasurer announced the formation of a 16 member independent Board of Directors. Consistent with corporate governance found in the financial institution sector, the role and responsibility of the Board is to govern the management and operations of Alberta Treasury Branches (ATB) through its four committees: Audit, Credit Policy and Risk Management, Human Resources, and Governance and Conduct Review. Through regularly scheduled meetings, the Board and its Committees are kept informed of operations through reports, analyses and discussions with management of significant issues. For instance, the Chief Information Officer reports to the Board on the status of Year 2000 compliance of ATB's banking systems.

The Board is accountable to the Provincial Treasurer and submits budget forecasts and financial statements to the Provincial Treasurer. In October 1997, under the new Alberta Treasury Branches Act, ATB became a Crown corporation.

Business Risks

Financial institutions are consolidating into larger, more diverse businesses, foreign financial services companies are penetrating the market, and new technology is increasingly being applied to banking operations. These are the environmental changes that Alberta Treasury Branches faces as it manages four significant business risks: credit risk, market risk, liquidity risk and operations risk.

While management is responsible for managing risk in their respective operations, senior management committees (Credit Management Committee and an Asset Liability Committee) have been established to formulate and evaluate risk management policies, and to monitor related exposures. In addition, the Chief Inspector evaluates the effectiveness of internal controls over these significant risks.

Credit risk relates to the failure of borrowers to meet their financial obligations as they become due. Training courses were provided to lending officers to enhance credit lending and the loan approval process was improved to incorporate an independent review by credit managers subject to the further review of the Credit Management Committee for higher value loans. As a result, the loan portfolio is becoming better managed to limit the risk of credit losses. My staff continues to assist Alberta Treasury Branches by identifying areas requiring a review of lending policies and additional training. A recommendation on connected loan accounts follows on page 223 of this report.

Market risk relates to exposure arising from market factors such as changes in interest rates, foreign exchange rates, and equity and commodity prices. Interest rate risk is monitored by Corporate Risk Management. The Asset Liability Committee monitors the steps taken and proposed by Corporate Risk Management to limit exposure to changes in interest rates and foreign exchange rates. On page 221 of my 1996-97 annual report, I discussed my review of systems that manage market risk.

Liquidity risk relates to not having sufficient funds to meet financial commitments and customer needs. The primary source of funds is the deposit base and ATB must compete with other financial institutions for customer deposits through competitive pricing and developing new products and services. As an example, ATB Investment Services Inc., was established this year as a mutual fund distribution company.

Operational risk relates to the risk of loss occurring as a result of the failure to have in place internal controls, policies and procedures, and systems to prevent loss from human error, system failure, criminal activity, and non compliance with legislation. Year 2000 poses a significant risk due to

the high volume and complexity of transactions processed, and to business relationships formed with suppliers and customers who may not be in a position to meet their obligations in terms of either providing materials and supplies or making their loan payments if their systems are not Year 2000 compliant. On page 224 of my 1996-97 report, I recommended that ATB give priority to ensuring that all issues relating to Year 2000 are addressed. ATB has since developed a detailed plan which includes target dates for Year 2000 compliance. Although I am satisfied with the progress made by ATB to date with regards to Year 2000, my staff will continue to monitor progress.

Scope of audit work

In addition to the annual financial statement audit, the following work was completed:

- Reviews of interim financial statements were performed and review reports were issued to the Board of Directors.
- Audits of ATB Investment Services Inc. and Business Improvement Loans, and specified audit procedures on annual pension returns were performed.

Connected Accounts

It is recommended that Alberta Treasury Branches review its lending guidelines and provide additional training where appropriate to ensure that all loans of connected companies are considered when reviewing, analyzing, and approving connected loan account applications.

Connected loan accounts should be reviewed together for cash flow and security purposes

Deficiencies were found where companies operating as a single economic entity within a connection were treated separately for security, cash flow and risk rating purposes on credit applications. To protect Alberta Treasury Branches' security position and minimize risk of loss on connected loan accounts, loans should be reviewed for adequacy of security and cash flow prior to approving connected loan account applications. It is particularly important when a number of inter-company purchase or sale transactions occur or where one company generates the income and cash flow for all loans, and in substance, all companies operate as a single economic entity within the connection.

Loans should be secured by claims on assets from related companies providing guarantees

Companies within a connection may provide guarantees on loans made to other related companies. When guarantees on loans are provided between connected companies, loans should be secured by additional claims on assets from related companies providing the guarantees. Obtaining additional security allows ATB to maximize recovery of loans in the event circumstances change and one company within the connection defaults on its loan payments. Moreover, claims on assets of related companies would also make it more difficult for a borrower to circumvent Alberta Treasury Branches' security position by transferring assets from one company to a related company.

Proper credit decision making for connected companies will require both the collection of necessary information from the borrower (often consolidated financial statements), and an understanding of the significance of the information by staff. As deficiencies were noted in these areas, it may be necessary to provide additional direction and staff training to improve credit lending decisions involving connected companies.

Unclaimed Customer Balances

It is recommended that Alberta Treasury Branches seek amendments to the Alberta Treasury Branches Act for the disposition of unclaimed customer balances to recognize the ongoing liability for repayment of these balances.

Alberta Treasury Branches (ATB) maintains a record of customer details relating to unclaimed customer balances in dormant deposit accounts. However, the Alberta Treasury Branches Act (the ATB Act) does not specify requirements for the disposition of unclaimed customer balances which, at March 31, 1998, amounted to \$4.8 million.

Chartered banks are required to transfer unclaimed balances to the Bank of Canada in accordance with the Bank Act. Alberta's Loan and Trust Corporations Act and regulations and the Credit Union Act also include detailed rules for the handling and eventual disposition of unclaimed balances.

The ATB Act should be amended to provide for a comparable system for dealing with the ATB's unclaimed customer accounts.

On-going Audit Work

What follows is the text of the letter I sent to the Provincial Treasurer on September 2, 1998. This letter sets out the conditions under which on-going audit work concerning West Edmonton Mall is proceeding.

“On August 4, 1998, you requested me, working together with the Alberta Treasury Branches (ATB), to review the West Edmonton Mall (WEM) loan agreements and related matters. At that time, the ATB had already commenced legal action against a former acting Superintendent involving allegations of acceptance of bribes in connection with loan agreements and the former acting Superintendent had commenced a countersuit claiming defamation. On August 25, 1998, the ATB commenced a major lawsuit primarily against WEM principals which, among other things, attacks the validity of the loan agreements. These complex lawsuits present me with a fundamental challenge insofar as it would not be prudent for any report resulting from the review to come to conclusions on issues that, at the time of the report, are before the courts in the lawsuits.

“I will continue the work on the review, including the question of whether or not there was political involvement resulting in an inappropriate use of public money, in accordance with the authority given me by the Auditor General Act. The work will include a review of the accountability relationship between elected officials and the ATB. I have been assured by both the Premier and yourself that my requests for information and cooperation will be met. I recognize my responsibility to ensure that any report respecting the review would not prejudicially affect any judicial proceedings still in progress. For that reason, depending on the status of the litigation and the quality of the review evidence obtained, I might not be able to complete a comprehensive public report until the lawsuits are adjudicated. To the extent that I can report on the results of my review without prejudicing litigation, I will, from time to time, do so.

“In accordance with my mandate, I will ensure that any allegations of inappropriate business practices at the ATB continue to be investigated properly and dealt with in an appropriate manner.”

Provincial Trust Funds

The Province administers public money over which the Province has no power of appropriation. The money is therefore not included in the Province's consolidated financial statements. At March 31, 1998, trust funds under administration amounted to \$20,019 million. Summarized information of the funds making up this amount is provided in Note 7 to the consolidated financial statements.

Other entities

Financial audits of the following were also completed:

475342 Alberta Ltd. - year ended December 31, 1997
Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 1998
Alberta Heritage Savings Trust Fund - year ended March 31, 1998
Alberta Heritage Scholarship Fund - year ended March 31, 1998
Alberta Intermodal Services Ltd. - period ended December 1, 1997
Alberta Municipal Financing Corporation - year ended December 31, 1997
Alberta Risk Management Fund - year ended March 31, 1998
Alberta Securities Commission - year ended March 31, 1998
ARCA Investments Inc. - year ended March 31, 1998
Consolidated Cash Investment Trust Fund - year ended March 31, 1998
Credit Union Deposit Guarantee Corporation - year ended December 31, 1997
N.A. Properties (1994) Ltd. - year ended March 31, 1998
NFI Finance, Inc. - year ended December 31, 1997
Orion Properties Ltd. - year ended December 31, 1997
SC Financial Ltd. - year ended December 31, 1997
The Alberta Government Telephones Commission - year ended December 31, 1997
Utility Companies Income Tax Rebates Fund - year ended March 31, 1998

Pension related:

For the year ended December 31, 1997:

Alberta Pensions Administration Corporation
Local Authorities Pension Plan
Management Employees Pension Plan
Public Service Management (Closed Membership)
Pension Plan
Public Service Pension Plan
Special Forces Pension Plan
Universities Academic Pension Plan.

For the two years ended March 31, 1998:

Provincial Judges and Masters in Chambers
Pension Plan

In addition, my auditor's report on the financial statements of the following contained a reservation of opinion. The auditor's report should be read for full details of the reservation:

Treasury Revolving Fund - year ended March 31, 1998.

Joint Audit of Alberta Registries

Overview

Terms of the Engagement

On May 6, 1997, the Deputy Minister of Alberta Municipal Affairs wrote to the Information and Privacy Commissioner requesting that a privacy compliance audit be conducted for the Registries Division.

The Deputy Minister of Municipal Affairs requested a privacy compliance audit

In his request, the Deputy Minister stated “*this department collects, uses and discloses vast amounts of personal information that is contained in several distinct, and electronic, personal information banks. The disclosure of this information, and in particular the selling of it has been raised a number of times with the Minister, with me and with other departmental officials. As a result, ensuring adequate privacy practices are adopted - especially as they relate to the FOIP Act - is important to us.*”

Information and Privacy Commissioner and Auditor General agreed to conduct a joint audit of Alberta Registries

The Information and Privacy Commissioner discussed the request with the Auditor General. They determined that an audit of Alberta Registries would be of use to the Minister. As a result, they agreed to pool the resources of their respective Offices, and conduct a joint audit of Alberta Registries.

The joint audit would focus on the Motor Vehicles Registry - privacy legislation compliance, computer systems and controls over private registry agents

It was decided that the joint audit would focus on the Motor Vehicles Registry. The audit would address not only the question of privacy legislation compliance practices employed by Alberta Registries for collection, use and disclosure of personal information, but it would also examine whether systems were adequate to ensure the security and integrity of motor vehicle information. Furthermore, it was decided to examine whether the controls over private registry agents, in respect of all registry operations (e.g. Motor Vehicles Registry, and Vital Statistics, etc.), were adequate.

On June 25, 1997, a planning memorandum was presented to the Minister and Deputy Minister of Alberta Municipal Affairs outlining the scope and approach to be taken by the Office of the Information and Privacy Commissioner and the Office of the Auditor General in their joint audit of Alberta Registries.

Authority

This examination was performed by the Auditor General under sections 12(a), 19, 28 and 29 of the Auditor General Act. The Information and Privacy Commissioner is authorized to conduct privacy compliance audits pursuant to Section 51(1)(a) of the Freedom of Information and Protection of Privacy Act.

History

Alberta Registries was formed in February 1993

In 1993, the Government of Alberta consolidated and transferred the administration of legislation governing its major registries to the Minister of Municipal Affairs. Alberta Registries, an operating division of Alberta Municipal Affairs, was formed in February 1993 to administer the registries for Motor Vehicles, Vital Statistics, Corporate Registry, Land Titles, Personal Property Registry and Land Information Alberta.

The consolidation initiative facilitated the transition to private sector delivery of licensing and associated registry services. The objective of this change in service delivery was to improve access to these services through a network of “one-window” community-based private registry agencies.

Alberta Registries has delegated responsibility for registry services to private agents, but is still responsible for the actions of these agents

Alberta Registries is authorized, through the Government Organization Act, to use private registry agents to deliver registry services. While Alberta Registries has delegated its responsibilities for service delivery to private registry agents, it remains responsible for the actions of the private registry agents as they are agents of the Crown and any activities of the agents are deemed to have been carried out by Alberta Registries. Alberta Registries also retains the responsibility for data ownership; quality control and maintenance; information systems; protection of privacy; and management of overall service delivery.

In 1995, the Freedom of Information and Protection of Privacy Act was implemented

Subsequent to the privatization of registry service delivery, the Freedom of Information and Protection of Privacy Act (the Act) was implemented. The Act, which came into effect in October 1995, establishes the standards in Alberta for how the public may access information held by governments and the fair information practices to be applied to personal information in the custody and control of a public body. In essence, the purpose of the Act is to ensure that public bodies are accountable to the public and, at the same time, protect personal privacy. However, the application of the use, disclosure and protection provision of the Act to Alberta Registries is an issue, given section 4(1)(h)(ii) of the Act,

Business Issues

The change in the role of Alberta Registries has created the need to manage new business issues and risks

Three separate and distinct areas of risk - privacy compliance, controls over information systems and monitoring of registry agents

Based on these risks, criteria were developed to assess current practices.

which excludes a record made from information in the Office of the Registrar of Motor Vehicles.

Since 1993, the role of Alberta Registries has changed from service deliverer to facilitator. Consequently, there are new business issues and risks to be managed. In addition, the implementation of the Freedom of Information and Protection of Privacy Act, in October 1995, has had an impact on the way in which Alberta Registries operates.

Our approach to this engagement recognized that there were three separate and distinct areas of risk facing Alberta Registries: privacy compliance; controls over information systems; and monitoring of private registry agents. Therefore, our audit was divided into three separate components that reflect these risks.

An audit is designed to assess the current practices of an entity against pre-established criteria. Based on the risks identified, criteria were developed which we expressed in the form of the following key questions:

- Are there adequate policies, procedures and controls to ensure that Alberta Registries and the private registry agents are complying with the Freedom of Information and Protection of Privacy Act, where applicable, or otherwise with fair information practices?
- Are there adequate policies, procedures and controls to ensure the security of personal information in Alberta Registries databases e.g. Motor Vehicles Registry?
- Are there adequate contracts and monitoring systems in place for registry operations to ensure that high-quality, accessible and cost-effective services are provided to Albertans?

Audit Results

Our recommendations will encourage significant improvements in registry operations

Our findings were developed into 21 recommendations that will require Alberta Registries to conduct a comprehensive review of its registry operations. We believe that the implementation of our recommendations will encourage the following significant improvements in registry operations:

- Alberta Registries will be able to assert that adequate privacy protection practices are applied to the personal information in the Motor Vehicles Registry.

- Albertans can be assured that their personal information is safeguarded from unauthorized access, use and disclosure.
- Alberta Registries will have adequately addressed the risk of potential misuse of personal information in the Motor Vehicles Registry.
- The public will be informed of the purpose and authority for collection of personal information in the Motor Vehicles Registry.
- Alberta Registries will obtain assurance that the control environment of its computer systems, including the Motor Vehicles Registry, is sufficient to safeguard the information contained in the databases.
- There will be fair and consistent treatment of private registry agents by Alberta Registries.
- Alberta Registries will be more effective by using a risk-focused approach to monitoring private registry agents.
- The accountability of registry agents to Alberta Registries will be better understood.

Excerpts from the Joint Audit Report

Information in the Office of the Registrar of Motor Vehicles - Background

The application of the Act to Alberta Registries, and in particular the Motor Vehicles Registry, has been a long standing issue i.e. does section 4(1)(h) exclude the records of Alberta Registries from the application of the Act?

Section 4(1)(h)(ii) reads:

This Act applies to all records in the custody or under the control of a public body, including court administration records, but does not apply to the following:

- (h) *a record made from information*
 - (ii) *in the office of the Registrar of Motor Vehicle Services*

Section 4 excludes specific records. It does not state that certain bodies are or are not subject to the Act. Alberta Registries is a division within the Department of Alberta Municipal Affairs - a public body under the Act. Therefore, Alberta Registries is subject to the Act except for those records which specifically fall within section 4(1)(h)(ii).

To be excluded under section 4(1)(h)(ii), a record must be “made from information in the office of the Registrar of Motor Vehicle Services”. The wording “record made from information” implies Alberta Registries may use and disclose information without being subject to the use and disclosure provisions of the Act but must collect information in accordance with the provisions of the Act. In other words, the collection of information in the first instance by Alberta Registries is subject to the Act; however, once the information is in the Motor Vehicles Registry, the Act does not apply.

Application of the Freedom of Information and Protection of Privacy Act

Recommendation No. 47

In order to protect the personal information of Albertans from inappropriate disclosure and consequent misuse, it is recommended that the Minister responsible for Alberta Registries consider the advisability of making personal information in the Office of the Registrar of Motor Vehicles Services fully subject to Part 2 of the Freedom of Information and Protection of Privacy Act.

Alternatively, it is recommended that Alberta Registries consider adopting fair information practices that are equivalent to the Freedom of Information and Protection of Privacy Act with respect to the use, disclosure and protection of personal information in the Motor Vehicles Registry.

The Motor Vehicles Registry contains personal information on many Albertans

The Motor Vehicles Registry is one of the largest databases in the Province and a significant asset of Alberta Registries. The registry contains personal information on many Albertans, which is attractive to individuals, businesses and organizations from the private and public sectors.

Many disclosures of personal information from the Motor Vehicle Registry are not consistent with the Act

We found that personal information is sold by Alberta Registries and private registry agents to many external users. Disclosure of personal information to some of these users, e.g. public bodies, federal government bodies and law enforcement agencies, can be justified as being for a use consistent with the purpose for which the information was collected. There are many disclosures, however, made by Alberta Registries and private registry agents where the use is not consistent with the original purpose of collection nor consistent with the other purposes provided by the Act.

Alberta Registries does not have control over and may not have complete knowledge of all disclosures made by agents from the Motor Vehicles Registry

Alberta Registries directly controls only a portion of the disclosures from the Motor Vehicles Registry. Private registry agents are authorized by Alberta Registries to enter into agreements with various external users enabling those users to obtain personal information via search transactions performed by the agents. Alberta Registries does not have control over and may not have complete knowledge of all disclosures made by agents from the Motor Vehicles Registry.

The potential exists for information obtained from the Motor Vehicles Registry to be misused

The disclosure of personal information without reference to the authority provided by the Act or any other statute or any guiding principles presents a significant risk to Alberta Registries. There is potential that information obtained from the Motor Vehicles Registry may be misused and/or cause harm. As Alberta Registries is ultimately responsible for the safeguarding of its assets and the protection of the information in the Motor Vehicles Registry, the Province would be held liable for any misuse of information provided by Alberta Registries or a private registry agent to an external user.

The Motor Vehicles Registry should be subject to all the protection of privacy provisions outlined in Part 2 of the Act

In our opinion, the Motor Vehicles Registry should be subject to all the protection of privacy provisions outlined in Part 2 of the Act. This opinion is based on the following observations:

- Albertans may reasonably expect that the protection of privacy provisions in Part 2 of the Act should apply not only to the collection of their personal information but also to the use, disclosure and protection of that information.

- Albertans may also expect that Alberta Registries is safeguarding their privacy and not using the personal information in its custody for revenue generation.
- Alberta Registries has been entrusted with the personal information of Albertans and therefore has a responsibility to ensure that personal information in its custody is safeguarded from unauthorized access, use and disclosure.
- Alberta Registries has the responsibility to ensure that it manages the risk of the potential misuse of personal information contained in the Motor Vehicles Registry.

A change in legislation would protect the personal information of Albertans

A change in legislation would provide Albertans, whose personal information is in the Motor Vehicles Registry, specific rights respecting that information and would require that Alberta Registries develops the necessary practices to ensure that its assets are safeguarded and business risks are adequately managed.

Adopting fair information practices will benefit Albertans and Alberta Registries

While we recognize that there are significant legislative, policy and financial implications to this recommendation, it is our opinion that adopting fair information practices will benefit Albertans and Alberta Registries.

Training Private Registry Agents

Recommendation No. 48

It is recommended that Alberta Registries educate and train private registry agents on the Freedom of Information and Protection of Privacy Act and its implications to registry services delivery.

Private registry agents have not received training on the Act

Alberta Registries does not provide training to private registry agents on the Act or its implications for registry services. Employees at private agent offices indicated that they have received little or no information on the Act.

Registry agent personnel have limited understanding of the purpose of collection

Alberta Registries policies and procedures, which are used as a reference source by private registry agents, make no reference to specific legislative authorities for collection of personal information. Thus, private agency personnel have limited or no understanding of the purpose of collection.

Agents of the Crown should have knowledge of the Act

Computer Services Performed by a Service Bureau

A letter of representation should be obtained from the service bureau

The letter of representation should be supported by a report from an external auditor

Quarterly reports should detail progress made towards correcting any noted deficiencies

Alberta Registries is responsible for ensuring the control objectives of outsourced computer systems are achieved

Private registry agents are agents of the Crown and are Alberta Registries front line representatives to the public. Therefore, the agents and their staff should have knowledge of the Act to ensure that the collection, use, disclosure and security of personal information are in accordance with the Act.

Recommendation No. 49

It is recommended that Alberta Registries obtain annually a letter of representation in a form acceptable to Alberta Registries, confirming that the control procedures relevant to the performance of services for Registries have been established and are operating effectively in all areas affecting the security and integrity of information processed and maintained by the service bureau responsible for the computer systems at Alberta Registries.

It is further recommended that:

- **the letter of representation be supported by a report by an external auditor of the service bureau on control procedures in a form and to a standard provided for by The Canadian Institute of Chartered Accountants.**
- **any control deficiencies identified by Alberta Registries, or by an external auditor, be made the subject of quarterly reports by the service bureau to Alberta Registries which detail the progress made towards correcting the deficiencies.**

In 1994, Alberta Registries outsourced the majority of its computer services to a service bureau. This decision has resulted in significant changes to the manner in which Alberta Registries computer systems are managed. Alberta Registries, however, still retains responsibility for ensuring that the control objectives of the outsourced computer systems are achieved i.e. safeguarding of assets, prevention of fraud and error, and maintenance of reliable accounting records.

Alberta Registries relies on the service bureau to ensure that effective control procedures are in place

Alberta Registries relies on the service bureau to ensure that effective control procedures are in place to meet the control objectives of the systems. The service bureau is responsible for the design of control procedures and ensuring that they are operating effectively.

Alberta Registries should ensure that control procedures are adequately designed and operating effectively

Alberta Registries should ensure that control procedures at the service bureau are adequately designed and are operating effectively. The contract between Alberta Registries and the service bureau includes a clause in section 14 that allows Alberta Registries to obtain an audit of the service bureau.

Obtaining a representation letter from the management of the service bureau and an external auditor's report on the control procedures at the service bureau will provide assurance to Alberta Registries that the control objectives of the computer system are being achieved.

Motor Vehicles and Driver Licensing Information Systems

Recommendation No. 50

It is recommended that Alberta Registries ensure that the service bureau responsible for the operation of the Motor Vehicles and Driver Licensing Information Systems addresses the deficiencies in control procedures relating to the Information Systems identified during the joint audit and reports quarterly to Alberta Registries on the progress made towards correcting these deficiencies.

During the course of our audit, we identified several control deficiencies that should be brought to the attention of the service bureau and rectified.

Improvements to controls are required

Generally, the mainframe processing environment, where most of the Motor Vehicles and Driver Licensing Information Systems software and data resides, is well controlled. There are however some improvements that should be made to the controls.

The controls of the distributed environment using the One Part Driver's License server should be improved

The controls of the distributed environment using the One Part Driver's License server should be improved. The control weaknesses identified in the system are, in part, due to less mature tools available previously to attain the level of security achieved in the stable mainframe environment. Nonetheless, a number of tools are now available and should be considered to enhance this security.

Controls should be strengthened in several additional areas

Additional areas where controls should be strengthened relate to information security (with respect to security policy), logical security of the control environments, segregation of duties, segregation of test and production environments, updating of the disaster recovery plan, development of a list of critical system resources, audit trail logging and reviewing, performance of security compliance reviews, development of procedures with respect to communicating staff transfers, hiring and de-hiring, and training of security staff.

Monitoring Private Registry Agents

Recommendation No. 51

It is recommended that Alberta Registries strengthen its policy and procedures for monitoring the activities and performance of private registry agents, and ensure that monitoring resources are allocated based on the risk that registry agents will not provide registry services in accordance with the registry agent agreement.

The registry agent monitoring process should be completely documented

The registry agent monitoring process at Alberta Registries has not been completely documented. Some elements of the process are documented including the job description of a Customer Service Co-ordinator (CSC); the newly revised policy of performance standards; and scoring guidelines, and internal audit programs. Each of the items represents a part of the monitoring process, however, no document exists which identifies all components of the process and the respective roles and responsibilities of all personnel performing monitoring functions.

The respective roles and responsibilities of each monitoring unit should be defined

Documentation of the respective roles and responsibilities of each monitoring unit (CSC, Internal Audit, Direct Customer Assistance and a financial monitoring unit) will ensure that all areas of concern to Alberta Registries (compliance with the agreement and all policy directives) are being monitored. It will also provide management with a basis for assessing whether the current monitoring processes are adequate.

Consistency in the monitoring of agents is required

We found that CSC's do not have specific procedures for the performance of their monitoring duties and consequently their practices vary. A registry agent stated that he receives conflicting advice from CSC's on the same issue. Our interviews of private registry agents indicate that they also

believe that the monitoring procedures of the CSC's vary significantly and that consistency between agent evaluations has not been achieved.

The monitoring procedures of the CSC's should be documented to ensure all policies and procedures are followed consistently and completely, and that all private registry agents are subject to the same standards. In addition, standardization will assist Alberta Registries when training a new CSC.

The scope of the on-site reviews should be expanded

The current on-site review checklist used by CSC's focuses on basic agency procedures including: a spot check on inventories, documentation of fixed asset serial numbers, on-site training, security of computer access, inventory, and cash, and a follow-up of recommendations from prior visits. The scope of the on-site reviews should be expanded to include an assessment of the agent's compliance with policies and procedures, similar to those procedures performed by Municipal Affairs Internal Audit.

Comprehensive on-site reviews will provide Alberta Registries with additional performance information and provide assurance that the agency agreement is being adhered to.

Alberta Registries should determine whether an audit of each agent every five years is sufficient

On average, each agent is audited by internal audit once every five years for compliance with policies and procedures. Alberta Registries performs an agent on-site review once a year, however, this review does not cover compliance with Alberta Registries policies and procedures. It should be determined whether an audit once every five years is sufficient to ensure that each agent is complying with all policies and procedures. The scope and frequency of these audits will, of course, depend upon whether CSC's will in the future be performing fully comprehensive on site reviews and how often. If fully comprehensive on-site reviews are to be performed frequently by CSC's, the internal audit function could logically be confined to audits of the content of on-site reviews performed by Alberta Registries.

The monitoring policy and procedures of Alberta Registries should be risk driven

The monitoring policy and procedures of Alberta Registries should be driven by an assessment of the risk that the private registry agents will not provide registry services satisfactorily. The risk will vary by agent depending on factors specific to the agency i.e. the quality of agent

personnel, the services provided, location (urban or rural), and staff turnover. While all agents should be subject to a basic level of monitoring, these risk factors should be the basis for determining the extent of further monitoring and auditing.

Performance standards and monitoring processes should be updated to accommodate the new services provided

With the continuous addition of services delivered by agents, the monitoring processes need to be revised. For instance, agents now deliver new corporate registries services, yet performance standards and the monitoring process have not been developed to ensure agents comply with the new policies and procedures. Performance standards and the monitoring process should be developed to ensure that services are being delivered effectively, efficiently and in compliance with Alberta Registries policies and procedures as well as with applicable legislation.

Status Report

I am pleased to report that the Minister of Municipal Affairs has agreed in principle with all 21 of the recommendations arising from the audit.

Alberta Registries has created a steering committee and several task groups that will be responsible for implementing 16 of the recommendations.

The Minister indicated that the remaining five recommendations have significant legislative, policy and financial implications. As an initial step, Alberta Registries is conducting a consultation with the Motor Vehicles Registry stakeholders.

Alberta Registries anticipates that full implementation of all recommendations arising from the joint audit will be completed in 1999.

Joint Audit Report

A copy of the full report can be obtained from Alberta Registries. Please contact Ms. Diane Genereux at 422-7838 for further information.

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. The Auditor General is the auditor of all government ministries, departments, funds containing public money, Provincial agencies, including publicly owned advanced education institutions, and most regional health authorities.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 report and other audit reports

In my section 18 report I state whether, in my opinion, the consolidated financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1997-98 consolidated financial statements is reproduced on page 246 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 Reports

The report you are reading is my section 19 report for 1997-98. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1997-98 fiscal year, I received no requests to perform a special duty under section 17.

Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency which, in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 244 of this report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Mission

The following statement continues to guide the work of the Auditor General's Office:

The mission of the Office of the Auditor General of Alberta is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

Proposing solutions for the improved use of public resources

All of our clients face risks which, if not well understood and managed, could jeopardize their success. Business risks are sometimes difficult to identify and they are constantly changing. We believe we can maximize the value of our advice and recommendations by helping our clients to identify their changing business risks. We can then help them address and manage these risks, and thereby improve their programs. We do this by providing professional services which help them find opportunities to reduce or eliminate their risks, to improve their use of public resources, and to better meet their goals.

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Legislative Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

We believe that effective performance reporting, which includes financial statement reporting, is essential for effective governance and accountability. We encourage our clients to develop improved measures of performance. Through our assurance services, we will also validate the resulting information and help to interpret expanded performance reports. We believe that measuring results and linking them to specific costs is critical to evaluating cost effectiveness, and will lead to improved management of public resources.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1997-98 is identified in sections 2 and 3 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1997-98 have been reported to management.

Reporting Process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences and audit committee meetings) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of this Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management and boards understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by my staff to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, recommendations considered important enough to be reported to ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this report. When determining

significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all ministers and deputy ministers or chief executive officers were informed of observations that relate to areas for which they are responsible.

The Provincial Treasurer, on behalf of the government, responded publicly to the numbered recommendations in the 1996-97 annual report on December 10, 1997. Of the 28 numbered recommendations, 24 were accepted, two were accepted in principle, and two were under review.

Reservations in Audit Reports on Financial Statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements.

As described in detail in Section 2, on page 206, I reserved my opinion on all ministry and department financial statements because of significant departures from generally accepted accounting principles.

Further, my auditor's reports for the Alberta Research Council, for most Funds and Foundations, and some Provincial agencies contained reservations of opinion because the financial statements omitted significant costs paid on the entities' behalf by other entities.

In addition, three reservations were issued because the financial statements of

- Fairview College Foundation
- Grande Prairie Regional College Foundation, and
- Northlands School Division No. 61

include revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

Other Information Included in Audit Reports on Financial Statements

Additional information

The auditor's reports for the financial statements of the Environmental Protection Revolving Fund, and Economic Development and Tourism Revolving Fund, contained additional information describing transfers of assets and liabilities between funds which were not authorized by legislation. Although the Financial Administration Act does not provide for transfers between revolving funds, in my opinion, there was no inappropriate use of public funds.

Report Under Section 18 of The Auditor General Act

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements and any other comments related to my audit of the financial statements, and to state my reasons for any reservation of opinion.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1998, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statements of financial position and capital assets of the Province of Alberta as at March 31, 1998 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

“In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position and capital assets of the Province of Alberta as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements.”

The Auditor’s Report was dated June 17, 1998.

Public Accounts

Audit

The Public Accounts of the Province for 1996-97 were published in four volumes:

Volume 1 - Annual Report of the Government of Alberta (including the audited Consolidated Financial Statements of the Province of Alberta and Measuring Up).

Volume 2 - Financial statements of the General Revenue Fund, revolving funds and regulated funds.

Volume 3 - Financial statements of Provincial agencies, commercial enterprises and Crown-controlled corporations.

Volume 4 - Financial statements of universities, public colleges, technical institutes and health boards and authorities.

With the greater responsibilities of Ministries in 1997-98 arising from the Government Accountability Act, Ministry Annual Reports must include Ministry consolidated financial statements and financial statements of each of the components of the Ministry, including departmental financial statements. Thus, instead of the four volumes of Public Accounts in 1996-97, the 1997-98 Public Accounts will comprise the Annual Report of the Government of Alberta (including the audited Province’s consolidated financial statements and Measuring up) plus the eighteen Ministry Annual Reports, including for each Ministry the audited financial statements of the Ministry and its components.

**Consolidated financial
statements**

The 1997-98 consolidated financial statements report on the Province's financial condition and capital assets, results of operations and cash flows.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities of Ministries whose financial statements are published in Ministry Annual Reports, including for example, departments, revolving funds, and regulated funds such as the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include certain Provincial agencies such as universities, public colleges and technical institutes, and regional health authorities and school boards.

Accounting Principles and Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Board of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

Auditing standards

The work of the Auditor General's Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Board.

Our contribution

Apart from providing comments on draft accounting and auditing standards, the Auditor General's Office contributes directly to professional accounting organizations:

Peter Valentine, FCA, is a member of the Board of Governors of CCAF. CCAF is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit.

Jim Hug, CA, is a member of the Practice Review Committee of the Institute of Chartered Accountants of Alberta (ICAA).

Ken Hoffman, CA, is a member of a CCAF Research Committee.

Doug Wylie, CMA, is a member of the Practice Review Committee of the Society of Management Accountants of Alberta.

Mary-Jane Dawson, CA, is a member of the Canadian Institute of Chartered Accountants auditing task force on Related Parties and Economic Dependence.

Office of the Auditor General

1997-98 Audited Financial Statements

Management Discussion and Analysis

These financial statements show that 1997-98 was another very successful year for the Office. The audit of the Province's consolidated financial statements was completed on time, and once again the Provincial Treasurer was able to release the statements in June. The Province continues to provide the earliest reporting in Canada. The Auditor General's 1996-97 Annual Report was released on September 24, 1997, immediately following the release of the balance of the 1996-97 Public Accounts (volumes 2, 3 and 4).

The general activity and cost of Office operations increased for the first time since 1992-93. After several years of reductions in staff size and in operating costs, the Office experienced a substantial increase in the demand for its services in 1997-98. In order to meet this demand, the Select Standing Committee on Legislative Offices approved a budget that provided for an increase in the number of staff positions, and subsequently approved supplementary estimates relating to the 1997-98 fiscal year totaling \$553,000.

The increased demand for services took a variety of forms including:

- audits of newly introduced ministry and departmental financial statements,
- a review of the government's conversion to the new IMAGIS computer systems,
- audits of performance measurement information, particularly in the Advanced Education sector,
- a number of special reviews, including those of the Crossroads Regional Health Authority and business practices at Alberta Treasury Branches, and
- an audit of Alberta Registries which was carried out jointly with the Office of the Information and Privacy Commissioner.

The following sections provide more specific information about various elements of the audited financial statements.

Manpower expense

Salaries, wages and services expense increased by about \$1,065,000 for several reasons:

- the number of full time equivalent positions increased,
- consistent with government practice, salaries were returned to levels that existed before the compensation reductions that were imposed several years ago,
- also consistent with government practice, achievement awards were made to staff, and
- some permanent staff members postponed vacations due to the sizable workload, and consequently the accrual for vacation pay increased.

Employer contributions for employee benefits increased by \$101,000 because of the increases in salaries and wages.

Employee related consulting costs are shown as manpower expense for the first time this year, and include professional development training provided to staff by consultants, amounts paid to employment agencies for staff recruitment, and staff relocation costs.

For the third consecutive year the Office's unfunded pension liability decreased by a significant amount (1996 \$373,375, 1997 \$543,470, 1998 \$679,749). The remaining unfunded pension liability as at March 31, 1998 is \$694,411. The large reduction in 1998 is due to the normal amortization of experience gains and actuarial asset value adjustment gains, as well as an updated actuarial valuation for the Management Employees Pension Plan.

Supplies and services

In total, supplies and services expense increased by about \$295,000 over the previous year. Most of this increase is attributable to an increase of \$233,000 in the amortization of capital assets. Due to rapid advances in computer technology, the computer replacement cycle has been changed from five years to three years. This change was discussed with the Select Standing Committee on Legislative Offices in the fall of 1997, nearly a year after the 1997-98 budget had been reviewed by the Committee. The change in the estimated useful life of this equipment resulted in increased amortization expense of about \$164,000 over the previous year. The remaining increase in amortization is due to capital asset purchases during the year.

Agent professional services

Payments to accounting firms for audit work under contract with the Auditor General increased by approximately \$330,000, mainly due to the following projects:

- a special review of the Crossroads Regional Health Authority,
- a review of security provisions in place over computer processing applications that had been contracted to private sector firms,
- a review of computerized information systems and related controls for the motor vehicle and operator licensing activities of Alberta Registries, and
- reviews of loan loss provisions and various business practices at Alberta Treasury Branches.

Annual Report work in progress

The cost of work in progress as at the fiscal year end on recommendations for the ensuing Annual Report is reported on the balance sheet. The amount of work in progress increased by about \$250,000 mainly due to the work on the first three items referred to above under the heading of agent professional services.

Year 2000

In our 1995-96 annual report we first discussed the need for our clients to prepare their information systems for the year 2000. The year 2000 non-compliance issues are extensive and because we rely heavily on information technology in our Office, we are at risk. With this in mind, we identified the impact that year 2000 would have on the Office's information systems. After reviewing existing hardware and software, computer purchasing procedures and office forms, we have determined that the Office's risks associated with year 2000 are low. More specifically:

- Our information technology plan has established that all notebooks, desktops, and servers which are not year 2000 compliant will be replaced prior to January 1, 2000.
- Our new file interrogation software (SuperProbe) is year 2000 compliant. This replaces old software which was not year 2000 compliant.
- Approximately 150 hours of programming is required to make the internal computer system for budgeting, recording, and reporting staff time year 2000 compliant. This work, including testing and certification of the system, will be completed by December 1998.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Office of the Auditor General are the responsibility of management and have been approved by the Auditor General.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The Management Committee of the Office of the Auditor General is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Auditor General is ultimately responsible for reviewing and approving the financial statements.

The financial statements have been audited by Kingston Ross Pasnak, Chartered Accountants, on behalf of the members of the Legislative Assembly.

Peter Valentine, FCA
Auditor General
May 15, 1998

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

FINANCIAL STATEMENTS

MARCH 31, 1998

Auditor's Report

Balance Sheet

Statement of Operations

Statement of Changes in Financial Position

Notes to the Financial Statements

Schedule of Output Costs by Ministry

Schedule of Recommendation Work and Status of Recommendations

Schedule of Other Performance Information

AUDITORS' REPORT

To the Chairman, Select Standing Committee on Legislative Offices:

We have audited the balance sheet of the Office of the Auditor General as at March 31, 1998 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Kingston Ross Pasnak
Chartered Accountants

May 15, 1998
Edmonton, Alberta

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

BALANCE SHEET

AS AT MARCH 31, 1998

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
Audit fees receivable	\$ -	\$ 127,385
Other receivables and advances	26,387	29,413
Work in progress (Note 3)	1,687,715	1,390,906
Due from general revenues	249,399	409,213
Capital assets (Note 4)	<u>921,964</u>	<u>948,391</u>
	<u>\$ 2,885,465</u>	<u>\$ 2,905,308</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 804,386	\$ 451,227
Accrued vacation pay	626,700	402,099
Pension liability (Note 5)	694,411	1,374,160
Deferred contributions related to capital assets	<u>759,968</u>	<u>677,822</u>
	<u>\$ 2,885,465</u>	<u>\$ 2,905,308</u>

The accompanying notes and schedules
are part of these financial statements.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 1998

	1998		1997
	Budget	Actual	Actual
	(Note 6)		
Expenses:			
Manpower:			
Salaries, wages and services (Note 8)	\$ 5,298,000	\$ 5,697,546	\$ 4,632,655
Employer contributions	825,000	799,397	698,427
Employee related consulting costs	70,000	107,810	143,397
Change in pension liability (Note 5)	-	(679,749)	(543,470)
Professional fees, training and development	130,000	141,657	141,165
	<u>6,323,000</u>	<u>6,066,661</u>	<u>5,072,174</u>
Supplies and services:			
Office leases	226,000	200,545	207,844
Travel	190,000	196,725	170,875
Professional services	236,000	205,483	186,998
Materials and supplies	202,000	166,933	194,280
Amortization of capital assets	349,000	507,483	274,633
Repairs and maintenance	22,000	10,938	25,282
Telephone and communications	91,000	75,558	77,736
Rental of office equipment	43,000	35,335	31,566
Computer services	190,000	177,363	146,034
Miscellaneous	32,000	63,063	29,015
	<u>1,581,000</u>	<u>1,639,426</u>	<u>1,344,263</u>
Total Office professional services	7,904,000	7,706,087	6,416,437
Agent professional services	<u>2,245,000</u>	<u>2,014,385</u>	<u>1,686,097</u>
Expenses before work in progress adjustment	<u>\$ 10,149,000</u>	9,720,472	8,102,534
Change in Annual Report work in progress		<u>(250,260)</u>	<u>(99,489)</u>
Total expenses for the year		9,470,212	8,003,045
Less audit fee revenue		<u>(1,861,312)</u>	<u>(1,810,101)</u>
Net cost of operations for the year		<u>\$ 7,608,900</u>	<u>\$ 6,192,944</u>
Financed by:			
General revenues		\$ 7,209,990	\$ 6,025,731
Amortization of deferred contributions related to capital assets		<u>398,910</u>	<u>167,213</u>
		<u>\$ 7,608,900</u>	<u>\$ 6,192,944</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1998

	<u>1998</u>	<u>1997</u>
Operating activities:		
Net cost of operations for the year	\$ (7,608,900)	\$ (6,192,944)
Non-cash transactions:		
Amortization of capital assets	507,483	274,633
Change in pension liability	(679,749)	(543,470)
Changes in working capital balances	<u>411,362</u>	<u>(668,969)</u>
	<u>(7,369,804)</u>	<u>(7,130,750)</u>
Investing activity:		
Purchase of capital assets	<u>(481,056)</u>	<u>(620,352)</u>
Financing activities:		
As shown on the statement of operations	7,608,900	6,192,944
Non-cash transaction:		
Amortization of deferred contributions related to capital assets	(398,910)	(167,213)
Capital contributions from general revenues	<u>481,056</u>	<u>620,352</u>
	<u>7,691,046</u>	<u>6,646,083</u>
Net change in Due from general revenues	(159,814)	(1,105,019)
Due from general revenues at beginning of year	<u>409,213</u>	<u>1,514,232</u>
Due from general revenues at end of year	<u>\$ 249,399</u>	<u>\$ 409,213</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1998

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature who operates under the authority of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The net cost of operations of the Office of the Auditor General is financed by general revenues of the Province of Alberta. Annual operating and capital budgets are reviewed by the Select Standing Committee on Legislative Offices.

The Auditor General provides opinions on accountability reports and issues an Annual Report to the Legislative Assembly containing recommendations designed to improve the financial administration of the Province. The 1996-97 Annual Report of the Auditor General was released in the 1998 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations which are funded primarily from sources other than Provincial general revenues.

(b) Output costs

Schedule 1 reports costs for three types of output. Opinion Projects result in Auditor's Reports on financial statements. Recommendation Projects are initially undertaken to produce recommendations and observations for the Auditor General's Annual Report to the Legislative Assembly. Other Client Services represent various types of assistance provided to audit clients, such as advising task forces, and other special projects which may or may not lead to recommendations for the Annual Report and do not result in audited financial statements.

(c) Work in progress

Work in progress includes the cost of billable opinion projects for which invoices have not been issued at the fiscal year end, together with the cost of work on recommendations for the ensuing Annual Report. The cost of recommendation work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

(d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	20%
Office equipment	20%
Furniture	10%
Leasehold improvements	term of the lease

(e) Deferred contributions related to capital assets

Contributions from general revenues which have been received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are depreciated.

(f) Pension expense

Pension expense included in employer contributions comprises:

- (i) the cost of pension benefits earned by employees during the year,
- (ii) interest on the Office's share of the unfunded pension liability,
- (iii) amortization of deferred adjustments over the expected average remaining service life of employees,
- (iv) adjustments to the pension obligation in the event that there is reasonable assurance that a gain or loss has been realized, and
- (v) the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Supplementary performance information

These financial statements contain supplementary performance information designed to assist in evaluating the Office's performance. In management's opinion, this quantifiable information is relevant and reliable.

Note 3 Work in Progress

Work in progress consists of:

	1998	1997
Billable opinion work	\$ 730,202	\$ 683,653
Annual Report recommendation work	957,513	707,253
	<u>\$ 1,687,715</u>	<u>\$ 1,390,906</u>

Note 4 Capital Assets

		1998		1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	\$ 1,361,711	\$ 1,164,098	\$ 197,613	\$ 303,618
Computer software	726,933	521,510	205,423	283,447
Office equipment	22,366	18,529	3,837	5,116
Furniture	500,835	75,834	425,001	232,336
Leasehold improvements	140,766	50,676	90,090	123,874
	<u>\$ 2,752,611</u>	<u>\$ 1,830,647</u>	<u>\$ 921,964</u>	<u>\$ 948,391</u>

During the year a decision was made to replace computer hardware on a three year cycle, instead of on the previous five year cycle. This decision had the effect of increasing amortization for the year by \$163,762.

Note 5 Pension Liability

The Office participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Office's employees based on years of service and earnings.

The Office had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	<u>1998</u>	<u>1997</u>
Public Service Pension Plan	\$ 64,609	\$ 76,584
Management Employees Pension Plan	<u>629,802</u>	<u>1,297,576</u>
	<u>\$ 694,411</u>	<u>\$ 1,374,160</u>

The total unfunded pension liability for each plan as at March 31, 1998 was determined by actuarial valuations as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1996 for the Management Employees Pension Plan, both extrapolated to March 31, 1998.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Office's portion of those employers' liabilities was based on the Office's percentage of the total pensionable payroll of all employers in each Plan.

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Select Standing Committee on Legislative Offices on November 14, 1996, and on supplementary estimates reviewed on December 16, 1997 and on February 24, 1998.

Note 7 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

Fiscal	
1999	\$ 206,800
2000	\$ 211,744
2001	\$ 202,836
2002	\$ 135,061
2003	\$ Nil

Note 8 Salaries and Benefits

Salaries and benefits are comprised of the following:

	1998				1997	
	Full-time Equivalents ⁽¹⁾	Salary ⁽²⁾	Benefits and Allowances ⁽³⁾	Total	Full-time Equivalents ⁽¹⁾	Total
Auditor General ⁽⁴⁾	1.0	\$ 118,875	\$ 15,014	\$ 133,889	1.0	\$ 125,068
Deputy Auditor General ⁽⁵⁾	-	-	-	-	0.1	15,787
Assistant Auditor General ⁽⁶⁾	1.0	99,397	14,952	114,349	1.0	107,554
Assistant Auditor General ⁽⁷⁾	1.0	90,330	20,582	110,912	0.4	42,317
Assistant Auditor General ⁽⁸⁾	1.0	95,593	15,071	110,664	1.0	94,720
Assistant Auditor General Internal Client Services	1.0	94,896	14,394	109,290	1.0	102,097
Assistant Auditor General ⁽⁹⁾	1.0	83,784	13,662	97,446	0.4	42,156
Assistant Auditor General ⁽¹⁰⁾	0.4	30,284	16,378	46,662	0.4	34,549
Assistant Auditor General ⁽¹¹⁾	0.3	21,724	16,081	37,805	1.0	100,077
Principals (average* 1998 \$80,749 1997 \$75,743)	22.2	1,514,827	277,810	1,792,637	19.4	1,469,423
Professional audit staff (average* 1998 \$59,570 1997 \$51,916)	26.8	1,439,670	156,818	1,596,488	28.3	1,469,231
Students and other audit staff (average* 1998 \$34,588 1997 \$32,909)	43.3	1,299,645	198,026	1,497,671	37.7	1,240,673
Support staff (average* 1998 \$39,779 1997 \$38,391)	15.7	540,509	84,020	624,529	14.7	564,347
	<u>114.7</u>	<u>\$ 5,429,534</u>	<u>\$ 842,808</u>	<u>6,272,342</u>	<u>106.4</u>	<u>5,407,999</u>
Increase (decrease) in accrued vacation pay				<u>224,601</u>		<u>(76,917)</u>
				<u>\$ 6,496,943</u>		<u>\$ 5,331,082</u>
* Average based on total						
Total comprised of:						
Salaries, wages and services				\$ 5,697,546		\$ 4,632,655
Employer contributions				<u>799,397</u>		<u>698,427</u>
				<u>\$ 6,496,943</u>		<u>\$ 5,331,082</u>

Note 8 Salaries and Benefits (continued)

⁽¹⁾ Presented on a weighted average basis.

⁽²⁾ Salary includes regular pay, overtime pay, and accrued achievement awards and retroactive pay.

Salary also includes amounts paid to firms and agencies for temporary staff.

⁽³⁾ Benefits and allowances includes the Office's share of all employee benefits and contributions including health care, dental coverage, group life insurance, and short and long-term disability plans.

Benefits and allowances also includes any payments for vacation entitlements. With respect to executives, the payments were as follows:

	1998	1997
Deputy Auditor General	\$ -	\$ 1,719
Assistant Auditor General ⁽⁶⁾	\$ -	\$ 8,148
Assistant Auditor General ⁽⁷⁾	\$ 5,954	\$ 5,894
Assistant Auditor General, Internal Client Services	\$ 6,233	\$ 2,006
Assistant Auditor General ⁽⁹⁾	\$ -	\$ 5,745
Assistant Auditor General ⁽¹⁰⁾	\$ 10,776	\$ -
Assistant Auditor General ⁽¹¹⁾	\$ 12,117	\$ -

⁽⁴⁾ Automobile provided to Auditor General, no amount included in benefits.

⁽⁵⁾ The Deputy Auditor General was seconded to Alberta Treasury Branches for 80% of his time during 1996-97, and left the Office during that year.

⁽⁶⁾ Major responsibilities - Health, Advanced Education, Education, Social Services.

⁽⁷⁾ Major responsibilities - Professional Practice and Quality Assurance.

⁽⁸⁾ Major responsibilities - Treasury, Energy, Transportation and Municipal Affairs.

⁽⁹⁾ Major responsibilities - Performance Measurement.

⁽¹⁰⁾ Major responsibilities - Financial Institutions and Instruments (to August 31, 1997).

⁽¹¹⁾ Major responsibilities - Social Services, Agriculture, Education and universities (to June 30, 1997).

Note 9 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer programs being written using two digits rather than four to define the applicable year. Computer programs that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal operations.

The Office is currently working to resolve the potential effect of the year 2000 on the processing of date sensitive information in its computerized information systems in a timely manner. The costs of addressing potential problems are not expected to have a material effect on the Office's financial condition. Despite the Office's efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 issue affecting the Office, including those related to the efforts of suppliers or other third parties, will be fully resolved.

Note 10 Comparative Figures

Certain 1997 comparative figures have been reclassified to conform to 1998 presentation.

Note 11 Approval of Financial Statements

These financial statements were approved by the Auditor General.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

SCHEDULE OF OUTPUT COSTS BY MINISTRY

FOR THE YEAR ENDED MARCH 31, 1998

	1998				1997		
	Opinion Projects	Recommendation Projects	Other Client Services	Total	Annual Report Recommendations	Total	Annual Report Recommendations
Work performed by Office staff:							
Treasury	\$ 1,151,374	\$ 482,704	\$ 102,072	\$ 1,736,150	14	\$ 1,431,195	21
Advanced Education and Career Development	1,265,541	270,087	6,700	1,542,328	10	1,247,892	5
Health	335,710	416,571	102,776	855,057	10	834,902	11
Municipal Affairs	306,950	77,574	6,072	390,596	4	376,508	5
Energy	356,507	1,113	22,110	379,730	2	297,612	1
Community Development	308,033	8,679	11,417	328,129	1	186,312	0
Family and Social Services	185,753	129,344	7,297	322,394	4	400,872	7
Education	167,269	103,572	37,617	308,458	3	189,076	6
Agriculture, Food and Rural Development	232,903	55,025	9,350	297,278	3	302,576	4
Executive Council	131,627	109,635	42,195	283,457	4	283,913	3
Environmental Protection	186,518	46,829	39,719	273,066	2	281,231	1
Economic Development	178,177	40,458	-	218,635	3	168,383	2
Public Works, Supply and Services	146,779	31,901	-	178,680	0	68,256	1
Transportation and Utilities	128,873	21,351	-	150,224	3	162,328	3
Labour	45,764	52,624	-	98,388	4	19,572	0
Science, Research and Information Technology	87,590	4,296	-	91,886	1	4,880	0
Justice	68,611	618	8,258	77,487	0	51,678	0
Legislative Assembly	25,902	28,132	-	54,034	1	5,314	0
Intergovernmental and Aboriginal Affairs	53,511	-	-	53,511	0	4,448	0
	5,363,392	1,880,513	395,583	7,639,488	69	6,316,948	70
Work performed by agents:							
Health	635,052	33,400	-	668,452	0	712,779	0
Advanced Education and Career Development	511,911	-	-	511,911	0	452,795	0
Treasury	246,140	-	-	246,140	0	134,314	0
Labour	94,800	-	-	94,800	0	76,800	0
Education	80,947	-	-	80,947	0	81,035	0
Economic Development	77,492	-	-	77,492	0	49,509	0
Science, Research and Information Technology	60,981	-	-	60,981	0	61,232	0
Public Works, Supply and Services	54,334	-	-	54,334	0	51,738	0
Agriculture, Food and Rural Development	12,400	-	-	12,400	0	11,500	0
Family and Social Services	-	12,000	-	12,000	0	-	0
Municipal Affairs	-	11,267	-	11,267	0	19,718	0
Community Development	-	-	-	-	0	34,677	0
	1,774,057	56,667	-	1,830,724	0	1,686,097	0
	\$ 7,137,449	\$ 1,937,180	\$ 395,583	\$ 9,470,212	69	\$ 8,003,045	70

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF RECOMMENDATION WORK AND STATUS OF RECOMMENDATIONS
FOR THE YEAR ENDED MARCH 31, 1998

Focus of Work

	1996-97		1995-96	
	Recommendations		Recommendations	
	Primary	Secondary	Primary	Secondary
Accounting, management control and information systems and processes	15	29	17	25
Improved use of resources	4	4	8	5
Measuring and reporting the cost and effects of outputs	8	5	4	4
Compliance with authorities, and matters of probity	-	3	5	1
Other areas	1	-	1	-
	<u>28</u>	<u>41</u>	<u>35</u>	<u>35</u>

Recommendations Requiring a Formal Government Response

	1996-97		1995-96	
	Annual Report	%	Annual Report	%
New recommendations	26	93%	25	71%
Repeat recommendations	2	7%	10	29%
Total primary recommendations	<u>28</u>	<u>100%</u>	<u>35</u>	<u>100%</u>

Government Response to Recommendations

	December 10, 1997 (date of response)		November 26, 1996 (date of response)	
		%		%
Accepted	24	86%	30	86%
Accepted in principle	2	7%	3	9%
Under review	2	7%	2	5%
No longer applicable	-	-	-	-
Rejected	-	-	-	-
	<u>28</u>	<u>100%</u>	<u>35</u>	<u>100%</u>

Note: The response to a primary recommendation, and any remedial action taken, is reported in the subsequent Annual Report. When the Auditor General considers that insufficient progress has been made in implementing a recommendation, it is repeated. Recommendations not repeated either have been, or are being, implemented satisfactorily. On occasion, a recommendation is neither implemented nor repeated due to changed circumstances.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

SCHEDULE OF OTHER PERFORMANCE INFORMATION

FOR THE YEAR ENDED MARCH 31, 1998

Average Hourly Costs

	Auditor General*		Agents**	
	1998	1997	1998	1997
Overall average	\$ 70.65	\$ 64.50	\$ 91.81	\$ 82.38

* Costs do not include reduction in pension liability.

** Average based on fees paid to agents.

Public Reporting

	1996-97 Reports	1995-96 Reports
Auditor General's Annual Report:		
Date of Report	September 15, 1997	September 16, 1996
Date of public release	September 24, 1997	September 26, 1996
Consolidated financial statements:		
Date of Auditor's Report	June 13, 1997	June 14, 1996
Date of public release	June 26, 1997	June 24, 1996

**Standing Committee on
Legislative Offices**

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on April 29, 1998, the day the Assembly last adjourned were:

Paul Langevin	Chair
Gary Friedel	Deputy Chair
Pam Barrett	
Gary Dickson, QC	
Yvonne Fritz	
Ron Hierath	
Wayne Jacques	
Mary O'Neill	
Howard Sapers	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

E. Susan Evans, QC	Chair
The Hon. Stockwell Day	
Patrick Daniel	
John Halpin, FCA	
Brian McCook, CA	
Alastair Ross	
Beverly Wittmack, CA	

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Lance White	Chair
Shiraz Shariff	Deputy Chair
Moe Amery	
Laurie Blakeman	
Denis Ducharme	
Ron Hierath	
Mark Hlady	
LeRoy Johnson	
Albert Klapstein	
Rob Lougheed	
Greg Melchin	
Sue Olsen	
Mary O'Neill	
Raj Pannu	
Ron Stevens, QC	
Julius Yankowsky	
Gene Zwozdesky	

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1998, were as follows:

KPMG
Coopers & Lybrand
King & Company
Doane Raymond
Deloitte & Touche
Price Waterhouse
Roy, Solbak, Walsh & Co.
Collins Barrow
Ernst & Young
Johnston, Morrison, Hunter & Co.
Young, Parkyn, McNab & Co.
K.A. Gregory, CA

Financial Terminology

1. Surplus, Deficit, Net Debt and Debt

In order to properly understand the Province's financial condition and results, it is necessary to understand the terminology used in the Public Accounts. For example, SURPLUS, DEFICIT, NET DEBT and DEBT are terms with particular meanings in the consolidated financial statements of the Province. Unfortunately, sometimes the terms are given different meanings by those not familiar with them.

The following table presents a summary of the Consolidated Statement of Operations for the fiscal year ended March 31, 1998, and the Consolidated Statement of Financial Position at March 31, 1998.

	In Millions	
	1998	1997
Revenues	\$ 17,754	\$ 16,748
Expenses/expenditures (see following comments)	(15,024)	(13,850)
Surplus for the year	2,730	2,898
Net debt at beginning of year	(8,709)	(11,607)
Net debt at end of year	<u>\$ (5,979)</u>	<u>\$ (8,709)</u>
Assets	\$ 20,368	\$ 19,917
Liabilities	(26,347)	(28,626)
Net Debt	<u>\$ (5,979)</u>	<u>\$ (8,709)</u>

Surplus/Deficit

A surplus results when the Province's consolidated revenue exceeds expenditure for a fiscal year.

A deficit results when the Province's consolidated expenditure exceeds revenue for a fiscal year.

Net Debt/Consolidated Net Debt

Annual deficits have exceeded annual surpluses in the past, so the net accumulated annual deficits are reported as consolidated net debt. The terms net debt and consolidated net debt are used interchangeably. Net debt represents the difference between the Province's liabilities and assets (1998 \$5,979 million, 1997 \$8,709 million). The term "accumulated deficit" is sometimes used to describe the net accumulated annual deficits incurred over time, and is synonymous with "net debt."

The net debt arises from the consolidated financial position of about 18 Ministries, comprising departments, revolving funds, the Alberta Heritage Savings Trust Fund and other regulated funds, provincial agencies and Crown-controlled corporations, including those agencies and corporations designated as commercial enterprises. Provincial agencies such as universities, public colleges, technical institutes, school boards, and regional health authorities are not included.

The assets of the Province include cash and marketable securities, receivables, investments, equity in commercial enterprises, loans and advances, and some inventories. Capital assets such as land, buildings and infrastructure are currently excluded.

The liabilities of the Province include accounts payable, unmatured debt, pension obligations and other accrued liabilities.

Debt

The word debt is used by some commentators to describe the total liabilities of the Province (1998 \$26,347 million, 1997 \$28,626 million) without taking into account the fact that the Province has financial assets available to offset against part of the total liabilities.

However, the word debt is also used to describe the accumulated debt including debt of Alberta Municipal Financing Corporation, (1998 \$17,296 million, 1997 \$19,558 million.), which is a part of the Province's liabilities. It is therefore important to be alert to the context in which the word debt is being used.

But note that debt, however used, is significantly different from net debt (1998 \$5,979 million, 1997 \$8,709 million) determined by netting the assets and liabilities of the Province.

2. Expense and Expenditure

The most significant of the changes initiated in the 1995-96 consolidated financial statements and now impacting the financial statements was reporting the expense instead of the expenditure of main functions, such as health, education, social services, etc. The EXPENSE method accounts for resources consumed in the accounting period, whereas the expenditure

method accounts for resources acquired, whether consumed or not. For example, for capital assets, the expense method accounts for annual amortization of the capital cost of an asset over the years of its expected life. On the other hand, using the EXPENDITURE method, the full cost of an asset is reported as expenditure in the year of acquisition. A simple example is a truck purchased for \$20,000 at the beginning of the year which is worth \$14,000 at the end of the year. What is the cost of the truck's usage during the year? Under the expense method of accounting, the annual cost is the \$6,000 difference (called amortization) between the initial cost and the value at the end of the year. Under the expenditure method, the cost is \$20,000.

It should be noted, however, that even though the functional reporting within the Province's Consolidated Statement of Operations was expense based, the annual surplus for 1997-98 was still effectively an expenditure-based result.

This expenditure-based result was achieved in the Statement of Operations as follows. Firstly, the amount of expense of each main function was disclosed (including the annual amortization of capital assets). Then, further down the Statement, a line item described as "net change in capital assets affecting operations" reversed out the annual amortization and substituted the cost of capital assets acquired during the year.

This practice is not as strange as it may seem at first. Since no national government accounting standard requires expense-based reporting, most governments in Canada report their results using the expenditure method. It is claimed that expenditure-based reporting permits comparability across the nation. Also, credit rating agencies and existing and potential lenders are comfortable with that method.

It is very likely that a reader of the statements will find this practice quite difficult to understand. However, it is based on the current view of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, and is considered by me as a progressive step towards eventual expense accounting.

From a government's business management perspective, there is a current movement in Canada to realize the benefits of focusing on performance results using the expense method to provide better cost measurement of government outputs. As with many other government financial initiatives, Alberta is at the forefront of this initiative by having implemented expense functional reporting for the Province's consolidated financial statements.

Staff

The employees of the Office of the Auditor General as of the date of this report are:

Angela Nicoli-Griffiths	Lori Sajjad, CMA
Ann Doram	Lori Caltagirone, CA
AnnMarie DeProphetis	Lori Trudgeon
Annie Shiu	Lynda Engelhardt, CMA
Barbara Clay	Lynda Turpin
Bill Cruikshank, CMA	Marcela Gagnon, CA
Bob Ballachay, CA, CMA	Marcia Mielke, CMA
Bob Fitzsimmons	Marjorie Joyce
Brad Ireland	Mary-Jane Dawson, CA
Brian Corbishley, DBA, CMC	Merwan Saher, CA
Bruce Laycock, Barrister and Solicitor	Michael Reinhart
Catherine Lee, CGA	Michael Stratford, CA
Catherine Ludwig, CA	Mimi Chow
Cecille Quinto	Mohamed Khalfan
Cornell Dover, CA	Mohan Aggarwal, CA
Craig Gawryluk	Monica Jeske, CA
Dale Beesley, CMA	Murray Walford, CMA
Dale Borrmann	Myles Norton
Dan Balderston	Natalie Stadler
David Birkby, CA	Nick Shandro, CA
Dennis Gee, CA	Pamela Tom
Don Gordon	Patricia Hassink, CA
Doug Bewick, CCP, ISP	Patrick Doyle
Douglas McKenzie, CA	Pelma Jore
Douglas Wylie, CMA	Peter Valentine, FCA
Elizabeth Chen-Hu, CMA	Peter Zuidhof, CGA
Fiona Syvenky	Ram Rajoo, CA
Gordie Basiga	Rene Boisson, CMA
Gerry Lain, CA	Richard Taylor, CA
Graeme Arklie, CA	Robert Drotar, CA
Harrison Cheng	Roger Elvina
Ian Sneddon, CA	Ronda White, CA
Jackie Di Lullo	Sabi Ghavami
Janice Lacher	Salima Mawani
Jim Hug, CA	Scott McIntyre, CA
Jim Vine, CMA	Sharon Johnson
Joe Lewis	Shauna Bruce
John Margitich	Sherry Hassen
Joseph Man	Stu Orr
Karen Hunder, CA	Suzanne Morter
Karen Lau	Tammy Bailey, CMA
Karen Schmidt	Theresa Politylo
Kathleen Gora, CA	Trevor Mills
Kathy Anderson	Trevor Shaw, CA, CMC
Kelly Aldridge, CMA	Valerie Holmgren-Jones, CMA
Ken Hoffman, CA	Venus Lee
Lawrence Taylor, CA	Victor Wearden, CA
Levy Castillo	Vivek Dharap, CA
Lisa Peterson	William Poon
Lori Ostafichuk, CMA	Winnie Lai

The summary which follows has been prepared to show the implementation status with respect to the Auditor General's 1996-97 numbered recommendations. The government formally responded to these recommendations in December 1997. Our follow-up of each of the recommendations is dealt with in section 2 of this annual report as referenced.

1996-97 Recommendation	Government Response	Implementation Status
1 It is recommended that the Office of the Chief Information Officer provide guidance to assist Ministries in conducting cost benefit analyses for information technology system acquisition and development projects. It is further recommended that Deputy Ministers act to ensure that their Ministries follow this guidance.	Accepted. The Auditor General's comments and recommendations are consistent with the mandate of the Office of the Chief Information Officer which was created by Premier Klein in 1995. The Chief information Officer recently released the government's "Information Resource Strategic Plan" which was developed in conjunction with all ministries. This Plan serves as a template for all ministries to use when developing or assessing implementation of new information technology initiatives.	Satisfactory. See page 31.
2 It is recommended that the Office of the Chief Information Officer identify those ministries that are at greatest risk because their computer systems are not year 2000 compliant, and work with them to mitigate the risk of their business operations being adversely affected.	Accepted. The Office of the Chief Information Office continues to work with all ministries in ensuring that all government computer systems will be year 2000 compliant prior to January 1, 2000. The Office has established a Year 2000 Coordinators Committee with representatives from each ministry. It has also formed a Year 2000 Advisory Council and put in place a Year 2000 Project Team with technical support from the Department of Public Works, Supply and Services.	Satisfactory. See page 28.

Status Report of Recommendations

	1996-97 Recommendation	Government Response	Implementation Status
3	It is recommended that ministries ensure that their contract negotiation and management practices result in cost-effective public services. It is also recommended that responsibility be assigned for the establishment of a process to determine and implement best practices in contracting.	Accepted. Each ministry will assess the cost effectiveness of its contract negotiation and management practices. Deputy Ministers will facilitate a review of this issue by all ministries.	Satisfactory. See page 31.
4	It is recommended that when grant funds and/or assets are provided to an organization or individual in return for an expected level of performance, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.	Accepted. Each ministry will assess what steps are appropriate for its specific circumstances. Deputy Ministers will facilitate a review of this issue by all ministries.	Satisfactory. See page 31.
5	It is recommended the Department of Advanced Education and Career Development, working with post-secondary institutions, improve the effectiveness of institutional business plans.	Accepted. The Ministry will continue to work with post-secondary institutions to improve the guidelines on what information should be contained in institutional business plans.	Satisfactory. See page 36.

1996-97 Recommendation	Government Response	Implementation Status
6 It is recommended the Department of Advanced Education and Career Development obtain information regarding the institutions' long-range funding requirements for capital assets to facilitate the Department's assessment of the financial position of institutions and the advanced education sector.	Accepted. The Ministry will continue to work with post-secondary institutions to improve the guidelines on what information should be contained in institutional business plans.	Satisfactory. See page 36.
7 It is recommended that the Department of Advanced Education and Career Development clarify the goal of the Skills Development Program with its delivery partners and set output and outcome targets to facilitate performance measurement of the Program.	Accepted. The Ministry is in the process of clarifying roles, responsibilities and mandates with its delivery partners, including reaffirming the goal of the Skills Development Program. Appropriate and meaningful output and outcome targets will be established using performance information that has been collected recently.	Satisfactory. See page 47.
8 It is recommended that the Agriculture Financial Services Corporation, together with the Department of Agriculture, Food and Rural Development, develop measurable evaluation criteria that can be used to determine and report on the effects of the Farm Income Disaster Program.	Accepted. The Farm Income Disaster Program Steering Committee has established an evaluation working group to develop measurable criteria and an evaluation process. The results will be used to evaluate this pilot project after its third year and to make recommendations on the future of this safety net program.	Satisfactory. See page 59.

Status Report of Recommendations

1996-97 Recommendation	Government Response	Implementation Status
9 It is recommended that the Department of Community Development hold Volunteer Societies appropriately accountable for the activities transferred to them at all the museums, historic sites, and the two Jubilee Auditoria.	Accepted. Effective October 1, 1997, the Ministry reviews the Societies' interim quarterly financial statements, compares these to budgets, and ensures the Societies comply with their agreements with the Ministry. The Ministry will continue to encourage the Societies to prepare annual business plans in addition to the financial plans. Societies will also be encouraged to adopt a code of ethics, conflict of interest rules, and disclosure procedures.	Satisfactory. See page 65.

1996-97 Recommendation	Government Response	Implementation Status
10 It is recommended that the Department of Economic Development and PWSS consider renegotiating the Agreement with the Alberta Tourism Partnership Corporation to improve the accountability framework and performance reporting.	Accepted. The Ministry will review the terms and performance conditions within the agreement with the Alberta Tourism Partnership Corporation. This agreement will be compared to tourism industry organizational models and funding agreements across Canada. The Ministry will work with the Alberta Tourism Partnership Cooperation to establish performance reporting benchmarks against which future contract performance can be evaluated. In addition, an audit will be performed on Alberta Tourism Partnership Corporation's expenditures. All of these actions will be taken during the 1998-2001 business planning cycle. Alberta Tourism Partnership Corporation will also be performing a client satisfaction survey in 1997-98.	Satisfactory. See page 71.

Status Report of Recommendations

	1996-97 Recommendation	Government Response	Implementation Status
11	It is again recommended that the Minister Responsible for Lotteries improve the accountability framework for grant expenditures made from the Lottery Fund.	Accepted. An accountability framework and reporting procedures are required to ensure that the desired benefits are being delivered from Lottery Fund expenditures. The Alberta Gaming and Liquor Commission will continue to work with Treasury to bring forward a proposal that will improve the accountability framework for grant expenditures made from the Lottery Fund. This proposal will be prepared and discussed with the Auditor General during the 1997-98 fiscal year.	Progress unsatisfactory. See page 76.

1996-97 Recommendation	Government Response	Implementation Status
12 It is recommended that the Department of Education ensure that each charter school's business plan identifies mandate-related performance measures, together with targets and strategies, that will be used to demonstrate the improved results occurring from innovative learning practices. It is also recommended that the business plan contain the criteria against which the renewal of the charter will be evaluated.	Accepted. Beginning with the 1997-98 Charter School Education Plan to the end of the charter term, charter schools are required to include performance measures and strategies to demonstrate that their program improves students' learning. The Ministry, in collaboration with the charter school board and the board of the establishing school jurisdiction, where applicable, will conduct two evaluations in the final year of charter for each charter school for the purpose of renewal. This timing may change if the Ministry receives feedback from the boards that the evaluations would provide greater value if carried out during the term of the charter. Specific content and expectations of the evaluations to determine charter renewal will be determined with the charter school boards (and establishing boards, where applicable) as part of the evaluation planning process.	Satisfactory. See page 87.

1996-97 Recommendation	Government Response	Implementation Status
13 It is recommended that the Department of Education ensure that all requirements for credit enrollment unit funding are met before funding is provided to the school boards.	Accepted. The Ministry will ensure to the best of its ability and within reasonable cost that all requirements have been met for provision of credit enrollment unit funding to school authorities. The Regional Office Branch will continue to monitor and conduct audits at the school level. The 1997-98 Funding Manual requires schools to maintain and retain for a period of 7 years, records of student attendance, mid-term and final marks, and course withdrawal for students in grades 10 to 12. In situations where a student accesses instruction in a manner different from classroom instruction, documentation of student progress and access to instruction must be maintained. This requirement provides the opportunity for the field reviews to confirm completion of course content and student attendance.	Satisfactory. See page 90.

1996-97 Recommendation	Government Response	Implementation Status
14 It is recommended that when tendering for major contracts, the Department of Family and Social Services provide the selection committee with a written mandate clearly specifying: • the goods or services to be acquired, or the needs that the goods or services are required to address, • the roles and responsibilities of the selection committee and of other individuals involved in the selection and approval of an applicant, • any conditions or constraints that must be complied with, the bases for imposing those conditions or constraints, and the selection committee's responsibilities for verifying those bases, and • direction as to the process that is to be followed in selecting an applicant and awarding the contract.	Accepted. The Ministry is in the process of implementing improvements to its current tendering practices. These improvements will be implemented during the 1998-2001 business planning cycle.	Resolved. See page 116.

1996-97 Recommendation	Government Response	Implementation Status
15 It is recommended that the Department of Health ensure accountability is established for all organizations in the health care system who have a significant impact on costs and results. Key performance measurements should be set in relation to agreed performance expectations and accountability for major components of health care costs should be defined.	Accepted. The Ministry has released a discussion document "Achieving Accountability in Alberta's Health System" to stakeholders and the public for review and comment. It describes the responsibilities of the major players working within the health system, outlines their accountability relationships, poses questions where lines of accountability are not clear and outlines how accountability can be improved through the process of continuous improvement. Once "Achieving Accountability" is finalized in March 1998, it will provide a basic accountability framework for the health system. Work will continue to strengthen the processes supporting accountability.	Satisfactory. An accountability framework is expected to be completed in 1998. The Department has also issued several related papers for discussion with stakeholders. Further follow-up is planned to determine if there are issues to be resolved and how accountability is put into practice.
16 It is recommended that the Department of Health work with health authorities to implement reporting on the performance of governance by health boards.	Accepted. In June 1997, the Ministry released a "Report on Corporate Governance of Regional Health Authorities in Alberta" which outlined numerous recommendations on governance. The Ministry will be looking at developing appropriate measures and reporting of performance of the governance function.	Satisfactory. The Department is in the process of developing guidance on the exercise and reporting of governance. Further audit work will be done to determine if a reporting process is put in place.

1996-97 Recommendation	Government Response	Implementation Status
17 It is recommended that the Department of Health, in collaboration with other stakeholders, establish priorities for the issuance of clinical best practice guidelines and report on the benefits achieved from the spending of public money to develop guidelines.	Accepted. The Ministry is working with the Alberta Medical Association to restructure the governance structure for the Clinical Practice Guideline program in order to improve effectiveness and accountability. This will involve the Alberta Medical Association and various external stakeholders in selecting topics, prioritizing projects, allocating resources, approving timelines, deciding output, determining performance measures and maximizing grassroots input.	Satisfactory. A multi-stakeholder committee is in place and efforts continue to develop more CPGs. A restructuring plan for the CPG program is being implemented.
18 It is recommended that the Department of Health develop a new process to address risks and opportunities within the physician funding and fee-for-service payment systems in cooperation with the Alberta Medical Association and regional health authorities.	Accepted. The Ministry has been working with the Alberta Medical Association and the regional health authorities to implement alternative methods of physician remuneration. Through negotiations with the Alberta Medical Association, the Ministry intends to agree to a process to develop and implement a Relative Value Guide to achieve relative equity among fee-for-service rates while taking into account the current involvement of medical practice.	Satisfactory. A new agreement with the AMA lays a foundation for addressing concerns. See the 1998 Audit Report for more information.

1996-97 Recommendation	Government Response	Implementation Status
19 It is recommended that the Department of Health carry through with a new plan for managing drug costs based on an informed assessment of risks and alternative methods for promoting the cost-effective use of drugs in the health care system.	Accepted. The Ministry is working with stakeholders on initiatives such as drug utilization review, rigorous evidence based review of new drugs, examination of the merits of existing categories of drugs, and the pursuit of risk sharing strategies with manufacturers.	Resolved. The Department has followed through with a plan to conduct drug utilization reviews and trial prescription programs have been established. Risk sharing agreements with manufacturers are being developed. A joint Federal and Provincial Working Group will be reporting on collaborative ways of managing drug cost and a strategic plan for the Drug Benefit Program is expected in 1998-99.
20 It is recommended that the Department of Health encourage health authorities and boards to improve the reporting of performance in annual reports in terms of measuring results and linking them to performance expectations that have been established in business plans.	Accepted. The Ministry, in consultation with regional health authorities, has established a process to review and improve the business plans and annual reports of health authorities and boards. Furthermore, the Ministry has undertaken a number of initiatives to improve its management information systems so as to have timely performance to compare against what was planned.	Satisfactory. While progress is being made, it is recommended that business plans be put in place in a timely manner and an implementation plan be developed for improving performance measurement and reporting.

1996-97 Recommendation	Government Response	Implementation Status
21 It is recommended that the Department of Health advance financial reporting in cooperation with regional health authorities and Provincial health boards by having financial statements include measurements of key results and the associated cost of achieving them.	Accepted. The ability of regional health authorities and Provincial health boards to report key outputs and their costs is being pursued through defining appropriate strategic information requirements, the Provincial Costing Project (a systematic and rational method of costing health services) and the "Alberta We//net" Project (a structure that will permit an exchange of timely and accurate information amongst health authorities and boards and the Ministry). Collectively these activities are expected to contribute towards knowing the cost and effects of health services.	Satisfactory. The Department has set up a working group to consider financial indicators which would help financial statement users to assess financial performance and methods by which such information could be publicly reported. Further audit work is planned to assess how this strategy will result in meeting the objectives of this recommendation which included measurement and reporting of key results and the associated costs of achieving them.
22 It is recommended that the Department of Labour establish policies and procedures to more effectively monitor the performance of delegated entities based on an assessment of risks.	Accepted. The Ministry has established monitoring activities and quality management plans which include a requirement to submit information suggested by the Auditor General. The Ministry will focus on monitoring, training and monitoring and rely less on audits to check the performance of delegated entities.	Satisfactory. See page 172.

Status Report of Recommendations

1996-97 Recommendation	Government Response	Implementation Status
23 It is recommended that the Department of Labour, in conjunction with the Alberta Boilers Safety Association, take timely action to reduce the backlog of in-service inspections of pressure equipment.	Accepted. The Ministry is working with the Alberta Boilers Safety Association to establish a plan that would deal with the backlog over a four year period. The plan has been identified to the Auditor General and there have been no concerns raised.	Satisfactory. See page 173.
24 It is recommended that the Department of Transportation and Utilities identify the business risks it faces in managing the Alberta transportation infrastructure, and, based on the information it needs to address those risks, evaluate the cost-benefits of the proposed infrastructure management system.	Accepted. The Ministry has outsourced much of its program delivery and undergone significant restructuring and downsizing. Therefore, development and maintenance of a comprehensive infrastructure management system is essential to ensure that the Ministry's investment decisions optimize scarce resources. A rigorous cost-benefit will be undertaken for every module of the infrastructure management system.	Progress unsatisfactory. See page 196.
25 It is recommended that departmental and ministry financial statements be prepared in accordance with generally accepted accounting principles.	Accepted in principle. The recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants are the primary source for generally accepted accounting principles for governments. Private sector standards will be used to supplement government standards where it is considered appropriate.	Progress unsatisfactory. See page 206.

1996-97 Recommendation	Government Response	Implementation Status
26 It is recommended that the Province's consolidated financial statements be prepared in accordance with generally accepted accounting principles for the summary financial statements of a government.	The government has accepted and already taken action on accruing all revenues and allocating employee entitlements for vacation pay to each ministry. These changes will be implemented in the 1998-99 budget. The government is reviewing the other suggestions for improvement, in consultation with the Auditor General. Of the Auditor General's suggestions, expanding the government reporting entity has the most significant implications from both government policy and practical perspectives. The government has accountability relationships with these entities. However, these entities also have accountability relationships with other stakeholders. Therefore, it is not clear whether including these entities in the reporting entity is expected by the public or the best practice. Further review is needed to determine the best way to reflect the activities of each of these types of entities in the government's reporting.	Progress unsatisfactory. See page 215.

Status Report of Recommendations

1996-97 Recommendation	Government Response	Implementation Status
	Generally, changes to the government's accounting policies and reporting practices are reflected in budgets and business plans before financial statements. This strengthens accountability by ensuring plans and actual results are always on a comparable basis	
27 It is recommended that the Department of Treasury report the actual results to date for revenues, expenses and surplus on the accrual basis in the quarterly report's Consolidated Fiscal Summary.	Accepted in principle. The implications and practical issues of implementing quarterly reporting on an accrual basis will be reviewed. ²²⁰	Progress unsatisfactory. See page 219.
28 It is again recommended that the Treasury Department develop a business plan for the Investment Management Division to provide other Provincial organizations with investment management services.	The recommendation to develop a business plan to clarify the Investment Management Division's role is accepted. The Division's role and duties for investment management services are under review in the context of the Provincial Treasurer's responsibilities under the Financial Administration Act. Funds that relate to longer term investment goals and that clearly fall under the authority of the Financial Administration Act are being managed by the Division. The Division is available to discuss investment matters with provincial organizations and provide assistance in accessing appropriate services.	Satisfactory. See page 220.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows

Definitions

1 In this Act,

- (a) “Auditor General” means the Auditor General of Alberta;
- (b) repealed 1993 c19 s17;
- (c) “department” means a department as defined in section 1 of the *Financial Administration Act* and includes
 - (i) the Legislative Assembly Office,

- (ii) the Ombudsman and the staff of the Office of the Ombudsman,
 - (iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer,
 - (iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner, and
 - (v) the Information and Privacy Commissioner and the staff of the Office of the Information and Privacy Commissioner;
- (d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;
 - (e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;
 - (f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;
 - (g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;
 - (h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s49;
1993 c19 s17;1994 cF-18.5 s93

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General	4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly. RSA 1980 cA-49 s4
Suspension or removal from office	5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office. RSA 1980 cA-49 s5
Vacancy in office	6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session. (2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General. RSA 1980 cA-49 s6
Salary and benefits	7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year. (2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers. RSA 1980 cA-49 s7
Acting Auditor General	8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General. (2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1). (3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General. RSA 1980 cA-49 s8
Office of the Auditor General	9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the <i>Public Service Act</i> as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

- (a) any regulation, order or directive made under *the Financial Administration Act*, or
- (b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) *The Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9:1983 cL-10.1 s57

Engagement of
services on fee
basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of
power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

- (a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or
- (b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General
as auditor

12 The Auditor General

- (a) is the auditor of every ministry, department, regulated fund, revolving fund and Provincial agency, and

- (b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12; 1995 cG-5.5 s17

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

- (a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and
- (b) reports that either
 - (i) there is no supply vote under which an expenditure with respect to that matter may be made, or
 - (ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General
may charge
fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to
information

15(1) The Auditor General is entitled to access at all reasonable times to

- (a) the records of a department, fund administrator or Provincial agency, and
- (b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to
information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

- (a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,
- (b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and
- (c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Reliance on auditor

16.1(1) In this section, “regional authority” means a board under the School Act or a regional health authority, subsidiary health corporation, community health council or provincial health board under the Regional Health Authorities Act.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

- (a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person’s findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,
- (b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and
- (c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties
of Auditor
General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report
on financial
statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

- (a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,
- (b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

RSA 1980 cA-49 s18; 1995 c23 s3

Annual report of
Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

- (a) on the work of his office, and
- (b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

- (a) collections of public money
 - (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

- (ii) have not been fully accounted for, or
 - (iii) have not been properly reflected in the accounts,
- (b) disbursements of public money
 - (i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,
 - (ii) have not complied with regulations, directives or orders applicable to those disbursements, or
 - (iii) have not been properly reflected in the accounts,
- (c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,
- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or
- (e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

- (a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on
 - (i) the accounting policies employed, and
 - (ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,
- (b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and
- (c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(3.1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.1.

(4) A report under this section shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

RS cA-49 s19; 1995 cG5.5 s17; 1996 cA-27.01 s22

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit	23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations. 1977 c56 s23
Availability of reports	24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee. 1977 c56 s24
When report not required	25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant. 1977 c56 s25
Supplementary information	26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General. 1977 c56 s26
Audit working papers	27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly. 1977 c56 s27
Report after examination	28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties. 1977 c56 s28
Advice on organization, systems, etc.	29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body. 1977 c56 s29
Annual audit	30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

Records
Management

31 On the recommendation of the Auditor General, the Select Standing Committee may make an order

- (a) respecting the management of records in the custody or under the control of the Office of the Auditor General, including their creation, handling, control, organization, retention, maintenance, security, preservation, disposition, alienation and destruction and their transfer to the Provincial Archives of Alberta;
- (b) establishing or governing the establishment of programs for any matter referred to in clause (a);
- (c) defining and classifying records;
- (d) respecting the records or classes of records to which the order or any provision of it applies.

SA 1995 c34 s1

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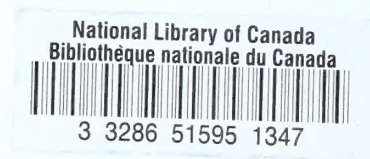
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